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Supplement

Near East & South Asia

IRAN:
Current Banking Policies; Islamic Regulations

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SUPPLEMENT
IRAN:
Current Banking Policies; Islamic Regulations

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*RESALAT Interviews Officials on Usury Laws, Other Topics

***Ayatollah Azari-Qomi**

95LA0007A Tehran RESALAT in Persian 3 Sep 94 pp 15, 5

[Interview with Ayatollah Ahmad Azari-Qomi by RESALAT; place and date not given]

[FBIS Translated Text]

[Box] Economic Division. Considering the issues that are discussed in the society in connection with interest-free banking, the implemental bylaws, and the operations of the banks, as a newspaper resolved to guard Islamic values, RESALAT considers it its duty to raise these issues with the experts in the seminary and executive organizations and examine and analyze them.

It is hoped that such measures will be able to provide the grounds for attaining an Islamic economy.

In this connection, some interviews were conducted that we are publishing on the occasion of Islamic Banking Week.

The text of the RESALAT interview with Ayatollah Ahmad Azari-Qomi is as follows: [End box]

[RESALAT] In your opinion, to what degree does interest-free banking conform to the spirit of an Islamic economy?

[Azari-Qomi] In Islamic economy, we have certain rules that if implemented individually are in one form, but if they are implemented systematically, they assume another form. In interest-free banking, in terms of appearance and form, religious criteria have been observed, and there are no jurisprudential problems. For this reason, it has been approved by the honorable religious jurists of the Council of Guardians.

Hence, the law that was ratified by the Majles and approved by the honorable religious jurists of the Council of Guardians is a correct law and has no problems. In other words, in its true form, transactions or purchases and sales and gaining profit is not objectionable. But looking at this issue systematically, that is, with regard to a bank or institution established for this purpose (government or nongovernment), it will create some problems in practice, and there are problems that are contrary to the spirit of Islamic economy. And the reason is the reported saying that concerns usury, which mentions the reason for its prohibition.

The infallible imam was asked, Why is usury prohibited? He responded, If usury is widespread, production and trade are abandoned.

The spirit of Islamic economy is understood through this reported saying in that, as this reported saying states, if usury were allowed, the people would be content to live off this profit (even if it is little), because it is gained very easily and one is not required to work and be active.

Ayatollah Azari-Qomi emphasized: This causes people not to go after trade or production. For example, in a visit I made to the Petrochemical Complex, I said to the general manager, If you would give the various sectors of this complex to individuals, they would carry out its implemental operations and move it to the operational phase. The general manager of the Petrochemical Complex responded: We have done this and announced it open for limited partnership, but there were no applicants, because they thought that they would have to invest huge amounts of capital and after several years of activity face problems. If they were to put the capital in the bank, even though they would receive a small return, the profit would be assured and trouble free. But in these activities, they must take risks, which are usually dangerous for them, because they believe that due to lack of investment security, after several years of hard work, their capital investment could be destroyed.

One of the issues that I discussed in my teaching was that government economy, because it creates monopolies and prevents the activities of other groups in production and trade, is prohibited, and this is supported by reported sayings as well.

Ayatollah Azari-Qomi continued: If the interest-free banking law that has been approved in religious terms is systematic, that is, if the bank does this (all transactions being at the disposal of the bank), the result of it, as can be seen now, is that the bank will suffer no losses, because it has blocked all channels to losses and also collects fines for a one-day delay of an installation payment of the debtor.

For example, in limited partnership, in accordance with religious law, if goods are left over, they belong to both parties and the investor cannot force the implementor to buy it. But the bank acts on the contrary, and with regard to the remaining goods that are the common property of the bank and the implementor, when there is no buyer the implementor is forced by the bank to sell them, and them at a price that assures that, in addition to compensation for losses, the bank gains a percentage of profit. This means that the bank says, We want our money, no matter how you are forced to pay it. However, the bank cannot force the implementor to make up for his losses and tell the implementor to buy the goods that have no buyer at a such price that will ensure at least no losses and perhaps even some profit. This is contrary to the spirit of Islamic economy, because the bank accepts no risk and, moreover, expects certain profits.

What kind of transaction is this that blocks all possibility of losses and in the end receives some profit as well (because transactions are always accompanied by risks)?

He pointed out: We say, if two or more people act on the existing contracts, there is no problem. But if an organization does it (like a bank), it is contrary to the spirit of Islamic economy.

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[RESALAT] Considering that bank loans are mainly granted for productive and profitable economic activities and generally help investment in the private sector, in your opinion, do the activities of the banks still cause the abandonment of production and trade?

[Azari-Qomi] Regarding the petrochemical issue, I referred to this matter and said that individuals who are able to do this, when they think that if they wish to work in production and building factories they will face many problems, they have to take refuge in the banks and put their money there.

Such people think, after all, the bank pays a guaranteed 14-percent interest, but a 50- or 60-percent profit that is gained from production or trade is risky.

Pointing out that owners of small capital are generally people who can work in the area of agriculture or trade or establish small workshops, Ayatollah Azari-Qomi said: The same people, when they see that there is a place that gives a percentage of profit, prefer to put their money in the bank and receive that profit.

He emphasized: This issue has caused a decrease in investments in recent years.

Sometimes collecting small capital and giving it to an investor creates an economic crisis. In this connection, the general manager of one of the factories said: We have so much in produced goods in the warehouse that is left there, for which we have no customers, and we are prepared to sell them on time, but there are no customers, because money is not available to the people. Because, after people deduct their annual expenditures, if they have any money left, they put it in their bank to receive prizes and profit.

[RESALAT] The answer that the defenders of the existing banking system give is that the bank is a representative of the people and can guarantee a profit. In this case, is it not allowed to announce a specific profit for the depositor?

[Azari-Qomi] A representative can act on behalf of the client, but he cannot give a profit and tell the recipient of the money, Do whatever you wish, but give me some profit. And it makes no difference whether the representative collects it for himself or others, because this action is contrary to religious law.

Ayatollah Azari-Qomi added: Martyr Sadr, who designed the interest-free banking system, says in the beginning of the book, *Al-Bank Elal-Rebavi*[*Usury Banking*]: "Because I saw that Islamic countries give interest very openly and clearly, I wanted to be somewhat lenient."

[RESALAT] Can it be said that the religious stratagem for evading usury is for emergency situations and in order to free the faithful from problems and that we cannot establish a banking system on the basis of religious stratagems?

[Azari-Qomi] As it has been stated in religious law, if people want to act individually (nonsystematic), there is no problem. And it is said in the reported sayings that the infallible imam said, "I do not like it" [in Arabic], that is, if it operates in this way, even though I do not like it, it should not matter to you. And 20 percent of the people might resort to this, and it is not monopolized by one person, whereas this particular method existing in the banks controls the whole economy and mixes it with usury.

A point that needs to be explained here is that in regard to the word stratagem [bileh], in Arabic its meaning is solution and not deception, trickery, or creating an appearance. And it means to find a religious solution rather than a solution through lying, deception, and trickery, trying to make it appear justified.

One case of religious deception is when the person does not say that he receives usury, but makes a transaction with the other party. As it is quoted from the Prophet, a person said to his holiness: Considering that the price of dates from Medina is different from the price of dates from Kheybar, can I exchange 1 kg of Kheybar dates with 2 kg of Medina dates?

The Prophet says, "No." But you can sell your 2 kg of low-quality dates for 100 tumans and with this money buy half of the good dates. In other words, two transactions must take place. If there is one transaction, it is problematic.

In religious law, 2 kg of dates cannot be exchanged for 2 kg, but one can act in the above-mentioned manner, which is called a religious stratagem or religious solution and not religious deception.

[RESALAT] The reason for the prohibition of usury is that it prevents employment and business, whereas apparently banking operations do not prevent employment. Many people get loans from the banks and engage in productive affairs.

[Azari-Qomi] At the present time, with only the bank giving loans, which has turned into a monopoly with no others playing any role, even if the bank is a government one, there is a problem. In Islam, there is no such thing as a bank the capital of which is money.

Ayatollah Azari-Qomi said: Investment naturally must be productive and profitable and provide incentive for others to invest. In other words, when one person sees that another person has invested in some business, has gained a good profit, and in terms of payment of bank installments, etc., has not faced problems, this encourages him to invest in production. But if, on the contrary, he sees that the person has faced numerous problems, naturally his inclination to invest will decrease, and such affairs face problems.

[RESALAT] Considering that at the present time applicants for banking loans for investment have increased in number, do you still think that investment is facing problems?

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[Azari-Qomi] This is mainly due to the increase in population. Also, applicants for banking loans have to make use of these loans, and it must not be credited to the increase in the number of applicants.

For example, in the housing sector, the number of applicants for investment in and building of housing has decreased, because the requirements have become more difficult, and also calculating late payment fines and service charges on bank loans reaches 30 percent, and it is no longer feasible for anyone to use bank loans to build housing.

Partial Payment Profit

Concerning the payment of partial payment profit by the banks, Ayatollah Azari-Qomi said: The problem that concerns the issue of receiving interest is also extended to partial payment profit. If partial payment profit is problematic, subsequently, many other things also become problematic.

He added: The issue of agreeing on a profit is different. If partial payment profit is indeed partial payment, in the sense that, for example, I agree to give you 100 tumans in interest, you give me 50 percent of it and then say that if it is lower or higher, up to a certain amount, you have no objection, but if it makes a profit of 100 tumans, you calculate it at 80 or 90 tumans and give me my share. In other words, if you pay less than the amount that you must pay, I am satisfied, and there is no problem. But if you gain a large profit and you want to pay me a small percentage, no one will accept this.

He emphasized: Some people suppose that merely by stating partial payments, the problem of usury is eliminated, whereas it must be mentioned absolutely that whatever profit is gained, even at 100 tumans, you calculate 100 tumans with me. If that is the case, it is an exchange agreement, and there is no problem, because it is one of the contracts that is proper. But if the agreement is made in advance, it is not accepted in Islam.

[RESALAT] At the end of every year, the balance sheet of the bank is examined. If there is a surplus, it is calculated and paid to the depositors. What is your honor's opinion in this regard?

[Azari-Qomi] If it is calculated and paid in full, there is no problem.

Recurring Late Payment Fines Are Problematic

Continuing this interview, Ayatollah Ahmad Azari-Qomi said: What has been said was in the ratification of the Majles. But the bylaws and the way they are implemented, for example, in regards to receiving late payment fines, changes the issue.

He added: The most important problem, against which in my opinion no religious jurist objects to the prohibition, is receiving late payment fines, and it must be noted that usury with regard to late payment fines is credit usury, not borrowing or transaction usury.

In regards to the credit usury, the example that all religious jurists give is that, for example, I sell you some goods on time for four months, and you are unable to pay your debt on time and say, Sir, I want to postpone my payment for two months and pay 100 tumans additional for the delay, which is problematic. (Delay payment fine is known as a credit fine and an ignorance fine.)

In continuation, Ayatollah Azari-Qomi pointed out: Even in the reported sayings concerning interest-free loans, it is stated that if a person lends money and intends to receive something from the other party should he be unable to repay him on time (delay payment usury), that is, if he gives money to the other party who fails to repay it on time and in this case receives something from him, his religious reward is eliminated, and it is considered usury.

[RESALAT] What must the banks do in this case? Must they suffer losses?

[Azari-Qomi] Essentially, Islam does not condone trade for which the capital is money and in which money is bought and sold, or in other words, usury and renting money.

Of course, as I said earlier, there are religious solutions to prevent losses. That is, the bank can make a condition that if the person receiving a bank loan intentionally delays repayment, that is, if he has the money and refuses to pay, a complaint must be registered in the court. In this case, the debtor deserves punishment, and the court can fine him, send him to jail, or flog him.

But if a person makes clear to the debtor, If you are unable to pay for any reasons, I will take something [fine] from you, that is contrary to religious law.

[RESALAT] In this case, can the bank take something as collateral and deduct it?

[Azari-Qomi] If it has taken collateral, it can deduct what is owned from the collateral and can only take the net amount of the debt.

Of course, here what is certain is the condition of delay, because it makes no difference whether it is made during the transaction or later, when on the due date the creditor wants to receive a delay payment fine, both are problematic.

He continued: In regards to limited partnership, the bank says to the implementor, You must buy the material contracted by the due date at a price, which is not less than the day's price in addition to a percentage in bank profit. Now, it does not pay attention to the fact that the implementor has worked hard. And when there are losses, the bank says to the implementor, Even if you suffer losses, you must take the contracted material, and we will accept no losses.

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In limited partnership, if the implementor is told that after the losses he must also pay the investor's money, this is not proper.

Ways To Prevent Losses in Limited Partnership

In regards to ways to prevent losses in limited partnership, referring to reported sayings by the infallible imams, Ayatollah Azari-Qomi said: One instance of a way to prevent losses in limited partnership is when a person went to one of the infallible imams and said, Whenever I engage in limited partnership with someone, I suffer losses. Is there a way to prevent my losses?

The infallible imam said, Say to the person with whom you make a limited partnership, out of, for instance, 1 million tumans that I put into this transaction, I will loan you 950,000 tumans and put the remaining 50,000 tumans in limited partnership. It is when in the contract the profit can be devised proportionally and equally.

In other words, if the person (implementor) suffers losses, those losses are only on the 50,000 tumans, and he must repay the 950,000 tumans that he has borrowed. But if there is a profit, it can be treated in accordance with the contract, which can be half and half.

[RESALAT] Some believe that Islamic economy is based on profit and losses, and the same is also true of banking, an unstable and shaky economy in which only risk governs. What is your opinion in this regard?

[Azari-Qomi] What we say is that the existence of banks for giving usury loans is not permitted in religious law. Of course, banking services are a necessity in today's world. In Islam, when usury is prohibited, it means that money can never be rented and cannot generate more money. Money and work are like the parents of profit; they must give birth to profit rather than being produced by one of them alone. Islam on the whole opposes this institution, that is, the bank, in its present form.

[RESALAT] What is your specific suggestion in regards to replacing losses in interest operations of the banks?

[Azari-Qomi] With the operations that they engage in, the banks create inflation in the society. In other words, the additional money that the bank receives for the operation of granting loans is added to the cost of production of goods. We say, this medium must be eliminated. Instead, to replace it, one can suggest that a group of people with capital come together and form a company and invest in the implementation of projects. Hence, investors participate directly in the implementation of projects that the government puts up for limited partnership, and the banks and others will have no involvement, which will result in a decrease in inflation throughout the society.

Such companies can be general partnership companies, so that every owner of capital can have a share. In that partnership company, a general assembly of the shareholders is formed, and the legal party will be responsible.

[RESALAT] Is the contract of such companies allowed or obligatory?

[Azari-Qomi] It is obligatory for the legal parties.

[RESALAT] In religious law, is the contract for a company necessary or permitted?

[Azari-Qomi] A few people came together somewhere, make investments, that is permitted; but if the legal party also participates, its dissolution must be with the opinion of the General Assembly.

[RESALAT] Pakistan and Malaysia have made a number of the banks Islamic. For example, the Housing Bank, which does not give loans to everyone, says, for instance, we have 25 housing projects in 25 provinces of the country, we will publish the shares of each project, and those who make deposits will receive a share, and the profit will be given to the shareholders. In other words, the bank is formed of general companies.

When the shareholder wants to sell his share, is your suggestion practical, when the shareholder helps the dissolution of the company in order to be able to receive his money?

[Azari-Qomi] He can sell his share.

[RESALAT] What if no one buys it?

[Azari-Qomi] He sells it to the legal party. If he does not buy it, then risk is involved.

[RESALAT] In countries like Malaysia, they say that if we give a share to a person and he wants to sell it, he can sell it on the stock market. Do you consider it permissible for the person to first sell it there?

[Azari-Qomi] There is no problem.

Ayatollah Azari-Qomi emphasized: The centers can be production establishments and every branch collect people's money, invest it, and give the profit to the people. My plan is for banks to become trade and production centers.

[RESALAT] Then they can no longer be called banks.

[Azari-Qomi] In Islam, banks that trade with money are not accepted.

[RESALAT] Can the decrease in the value of money be made up for in banking?

[Azari-Qomi] Money in Islam is property, but the property is equivalent and not the price. The guarantee of equivalent property is like an equivalent guarantee. In other words, when you lend money to someone, he is responsible for its nominal value, and you cannot ask for anything additional.

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Once a person had said that if banks only grant interest-free loans, cash flow will increase in the society and cause inflation, and the number of applicants to receive loans will also increase. In fact, he had mentioned the banking profit as the factor for controlling demand.

Whereas I say, the same money that the bank collects and wants to invest, I do not say it should give it as interest-free loans, but they must invest it themselves. The bank cannot grant interest-free loans on its own. But the owners of money must put it to work in limited partnership. Of course, the bank cannot grant it in this way, because it is a risk, and the people's money will also be lost.

In response to this issue, that they say if a person, for example, puts 1,000 tumans in the bank and now we want to operate in the form of interest-free loans and give him 1,000 tumans back, in fact, considering inflation, we would not be returning more than one-half of his money, because its purchasing power has decreased, it must be said that the purchasing power sometimes, due to supply and demand and the decrease in production, may decrease, but if the purchasing power decreases because of inflation, it is because of the existence of interest which is given on money, and hence you always have a current and fixed price.

He emphasized: Why do you say that it is not at all possible to prevent the growth of inflation? The government can prevent the inflation growth, but the principle of inflation is inevitable. If the money that must be capital for production is interest-free up to 10 years, even the price of a product that is produced with it may not increase. But if 20-percent interest is paid, the product that is produced will cost more, and the increase in price in this form is due to interest. If there is no interest, we shall not have a current and fixed price. Of course, sometimes an increase in price occurs due to supply and demand.

*Prof Seyyed Morteza Khatami

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[Interview with Professor Seyyed Morteza Khatami by RESALAT; place and date not given]

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It is hoped that such measures will provide the grounds for attaining an Islamic economy.

In this connection, some interviews were conducted, which we are publishing on the occasion of Islamic Banking Week.

The text of the RESALAT interview with Professor Seyyed Morteza Khatami is as follows:

In the beginning of this interview, Professor Seyyed Morteza Khatami said: Previously, the religious problem that existed was that banks gave loans and received interest. When the lender made a condition that he will take more money, it was contrary to religious law. The contract itself and the action was also prohibited religiously. Of course, other operations of the bank cannot be said to have been prohibited.

He said: If goods are exchanged in a transaction for the same goods and more is demanded, whether in cash or credit, and if an advance purchase is "measurable and can be weighed" or countable, they must not receive more than what they have given, because it will be considered usury.

In better explaining the reason for the prohibition on interest in borrowing, he said: Because giving loans is an emotional act and usually occurs among acquaintances, receiving interest is not allowed. But in buying and selling, usually this occurs with a stranger, and receiving a profit is not a problem.

In regards to whether "the sale of money is allowed or not," he pointed out: Problem No. 2845 of the Imam's dissertation, "Clarifying the Questions" [Tozih al-Mas'el], states: In regards to items such as paper money, dinars, and other currencies, nonlending usury does not materialize, and changing them with others at higher or lower amounts is permissible.

Explaining the above issue, he added: Essentially, interest is a kind of gain. In one case, it is usury in transactions and buying and selling, and in another in lending or borrowing.

In response to the question, "In your opinion, to what extent does the interest-free banking law conform to the spirit of Islamic economy?" he said: As far as I know, the laws are Islamic, but there are easier Islamic ways in practice concerning that the help of the religious jurists must be sought and used, such as regards the buying and selling of money, which is mentioned in the Imam's dissertation and also in "Tahrir Al-Wasalah."

No religious jurist finds problems with the buying and selling of money, and in regards to buying and selling money for its likeness (rial for rial), the Imam and some of the religious jurists also have allowed it.

In response to the question of whether someone might say that the collateral for money is gold and silver and gold and silver can be measured and weighed, in this case, whether it is allowed or not, he said: Religious jurists have rejected this issue and say credit is given by governments for currency, and it can be used, and in fact money does not represent gold or silver, so that if, for instance, it is left somewhere, it is not subject to religious taxes like gold and silver.

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Professor Khatami emphasized: The laws and regulations of the banking system are all correct, but because in practice it is difficult, facades are devised, and the receiver of a loan brings some forged receipts, and the bank waits to conduct business, and due to the large volume of work, the number of these cases is high and is not followed up.

Based on Islamic laws, with proper contracts and conditions, capital and profit can be pursued in the contracts, and someone's losses can even be assumed.

Interest-Free Banking Is Islamic, But There Are Easier Islamic Ways Concerning Which the Help of the Religious Jurists Must Be Sought and Used

He added: For example, one of the contracts that exist in the banks is payment for services, which if implemented properly is not problematic. But the point is that the money that is received as payment for services is not spent on buildings and spent on other matters, prompting the director of the branch of one of the banks to say: The payment for service loan is wrong, and if the implementor is the bank, it does not give a loan, but performs a service, and in accordance with an agreement an amount is paid to the other party.

Professor Khatami emphasized: We must provide instructions to prevent such terms from being used, such as a limited partnership loan, in which case, limited partnership has no relationship to loan.

The Role of Implementor in Participation and Profit and Loss

In response to the question, "According to what has been stated in religious jurisprudence and Islamic books, the implementor is a partner in profit and loss, even if the principle of the capital is harmed, whereas according to present regulations, if the implementor suffers losses for any reason, he is responsible for returning the principle, is the precise implementation of religious laws not thereby violated?"

He pointed out: Partnership in profit and loss is a factor in limited partnership. If what is meant by implementor is partnership, for instance, the bank has invested money and he himself has also invested money and they have become partners, it does not concern the implementor and the company, because the implementor may be an employee and not the owner of the money. [paragraph as published]

He added: In limited partnership, one person gives the money and one person works. The person who works does not give the money. Of course, he shares in the profit, but not in the loss. If the implementor is not negligent in his work and does not commit violations, in case of losses, first the profit is used and then it is deducted from the principle, and the implementor will not have financial losses and only his labor will be wasted. Of course, in the signing of a contract, some level of loss by the implementor can be mentioned.

Professor Khatami emphasized: In Islam, the issue of the implementor, for whatever justifiable reason, being responsible for returning the principle is not correct, unless it is made a condition, and as long as the limited partnership is valid, the condition is correct.

He continued: In Islamic rules, with proper contracts and putting in place conditions in those contracts, capital and profit may be protected and someone's losses can even be absorbed.

Interest-Free Banking Law and Eliminating the Problems of the Society

In response to the question, "With the implementation of the interest-free banking law, to what extent can we respond to the needs of the society in today's complex world?" he said: If the existing laws in Islamic banking are implemented properly, it is Islamic and correct. But, in my opinion, because it requires hard work and time, while the needs of applicants are more necessary and urgent and individuals want them to be handled faster, they can solve the problem by buying and selling money.

Pointing out that individuals must pay attention to the existing laws in religious jurisprudence and note that lending involves an emotional aspect, but in buying and selling, no emotional aspect needs exist, Professor Khatami said: For example, if I say to you that I was in Mashhad and I ran out of money so I went and got a loan and came to Tehran, without saying anything else, you will think that I have an acquaintance in Mashhad and borrowed it from him, that someone was kind enough to give me a loan. But if I tell you that I was in Mashhad and went and bought a fan, it would not cross your mind that I had an acquaintance who sells fans; a store was open, and I went there and bought a fan. Hence, in buying and selling, there is no emotion, acquaintance, or kindness involved. Islam wants this emotion to be preserved in lending. It says, in lending, do not receive interest. Anyone who does not want to give it, let him not do so. It is recommended that it be given, but if he does, he must not receive interest, so that this kindness exists among the faithful. But if it is a matter of buying and selling, religious jurists do not see a problem, and it is a different matter. That is why Islam goes through a higher level. In fact, in today's world we see that everywhere in the world they give loans and receive interest. They do not look at each other as though a crime or treachery has been committed.

Islam operates on a higher level and says, Do not destroy kindness among yourselves and do not look at each other mechanically. Let lending be interest-free. If you want to gain a profit, engage in buying and selling, which is similar in appearance, but is in fact different.

In lending, if I lend something to someone, he must return that same object to me. It is essentially and fundamentally different from transactions. In transactions, I do not ask for the same object, but I want [the

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equivalent of] its price. I want what we have agreed to from the other party, and if it is on credit, he owes me the price of that material.

He pointed out: What is meant is that we are able to be one step ahead of the world and more humane. If we lend money to each other, we do not receive interest, as Ayatollah Khamene'i emphasized, to put more importance on loans being more effective in strengthening relationships between the faithful. But when the issue of buying and selling is discussed, in fact, it is business. And buying and selling money is also accepted by Ayatollah Araki and the late Imam.

Banking Laws Are Not Implemented Properly

In response to the question, "Will the large number of Islamic contracts not add to the bureaucratic complexity and relations and in this way cause increased social costs?" Professor Khatami pointed out: Even though this issue will cause increased social costs and complexity of bureaucratic relations, in my opinion, this increase is no problem. Rather, the problem is that banking laws are not properly implemented, because, due to particular problems, the customer wants the implementation to be done faster or is unable to do what the bank demands of him, so he goes and creates some facade and takes the money.

In response to this question, "Can a method be proposed that will make Islamic contacts self-regulated?" he said: If we see that control and supervision between the bank and the customers is superficial, and most bank directors know that the receipts presented are fabricated or the payment for services that is stated by a person he does not really intend to spend on payment for services, it is because there are so many cases, and the customer needs the money and the bank also wants to conduct its business, especially the bank personnel want to complete the work more rapidly, and if they facilitate the affairs, no problems will occur.

The Role of Interest-Free Banking in Economic Development

Concerning the question of, "whether or not interest-free banking confirms the role of the banks in economic development and if the answer is affirmative, how?" Professor Khatami said: If what is meant is how the banks themselves engage in transactions and cause economic development, it is true at that level. On the other hand, it will not secure the kind of economic progress that comes to mind, because the bank is a government institution and the bank employee does not see his own profit or loss in what he does with the customer. Rather, he wants to receive his salary at the end of the month. Hence, he does not obligate himself to be responsible for the regulations of the bank vis-a-vis the bank inspector and officials.

Pointing out that in regards to the banks during the Tyrant's time and the banks that are now active in the world, economic loss is not an issue for them, he added: Because in other countries the private sector is active in economic areas, and they are careful how much interest they pay on loans they receive, the issue of their economy suffering apparent damage does not exist, but we think that because the bank enters some businesses, it will result in economic thriving, whereas they have not succeeded in this issue either, because first, they cannot get involved to a great extent in economic affairs, and second the private sector pursues its own interests, and if it knows that the bank wants to make a large profit, it will not get involved with the bank as much as possible, because it wants to gain its own profit, or they become involved in sectors in which they make maximum profit.

He added: At one time I said that these tyrannical banks become Islamic with one announcement by the banks to the people, so that they would announce based on the decree of the Imam or Grand Ayatollahs Golpayegani or Araki that regarding the money that they were lending with the condition of receiving interest, the interest and also its condition is prohibited, and this practice is prohibited and that in fact we ask you for the principle, and the money that we gave you as a loan we sold to you. If you do not agree, return the principle, and if you accept, give us the interest as the profit for the sale of the money. It would have been so simple and the problem would have been resolved with one decree, whereas, unfortunately, it has not become possible.

Necessity of People Becoming Aware of the Economic Laws of Islam

Emphasizing that lack of awareness of the people about jurisprudential issues, he said: When a grand personality such as Ayatollah Araki writes explicitly in his dissertation that objects such as money are countable and it is permissible to buy and sell higher or lower and the people do not understand these issues and do not realize what is prohibited and what is permissible, these problems occur. When [paper] money became common a hundred some years ago, the late Seyyed Mohammad Kazem-Yazdi issued a decree that buying and selling it higher or lower is allowed. This issue is recorded in the book on *Addenda to 'Orvat Ol-Vosqa'* as well.

In response to the question, "Some people believe that following the ratification of the interest-free banking operations, the system has changed, that merely in place of the term loan, facilities, instead of the terms for various levels of loans, various kinds of contracts, and that of interest, guaranteed or partial payment profit are used, what is your opinion in this regard?" Professor Khatami said: The regulations of the bank are correct as they are. Unfortunately, people have a great many needs, which are not resolved only with contracts. For example a merchant whose check is returned the next day needs more money, and unfortunately he has no piety to say that if his check returns he will not do anything contrary to religion. Because there are a large number of such customers, they may engage in making appearances in any way possible.

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Professor Khatami said: When the transactions, in fact, do not take place, there is a blunder and fabrication.

Of course, not all the implemental work is wrong, and they also act on the basis of the law. Problems are created by the amount that is done incorrectly.

In another part of this interview, Professor Khatami said in regards to the weakness of supervision over the activities of banks in terms of the implementation of Islamic laws: The reason for this is mostly because people's needs exceed the existing contracts, and when banks see that if they want to implement their contracts, they have few customers, they do not practice strictness.

For example, I know about one limited partnership contract in which the bank placed money at the disposal of the implementor to do a series of carpet transactions in the course of four months, and he returned the money with the profit after the first transaction in half a day, and it is not possible for this person to keep the money that he needs so urgently before his eyes for four months and not touch it. And if he wants to return it to the bank sooner, they will say, go and bring it in four months, and this prepares the condition for violations by the implementor.

Responding to the question, "At the present time, to receive loans from the banking network there is strong bureaucracy, such as bookkeeping, the signing of numerous contracts, finding guarantors, long-term evaluation of projects by experts, and depositing exorbitant collateral, do such issues conform to the spirit of Islamic laws? If not, what do you suggest to eliminate them?" Professor Khatami said: The bank must be strict, as much as necessary, to protect its money, because endangering bank resources is considered a violation. But the main problem is in the transaction itself, which due to the length of time or difficulty is not implemented, and the collateral must be obtained as much as necessary, because there are many violators.

Interest-Free Loans and Problems in Implementation

Concerning the operation of the banking system in regards to interest-free loans and the revitalization of this divine tradition according to the statements of the grand leader, Professor Khatami said: Banks give few interest-free loans, and then they have raised the issue of service charges and create long delays in receiving it, so that the problem of the person in need is not solved desirably. If banks are able to grant interest-free loans at the necessary level to those who need them from their own resources or those of charitable persons who want to act through the bank and do not collect service charges in grating the loans, this divine tradition will be revitalized.

***Ayatollah Razvani**

95LA0007C Tehran RESALAT in Persian 5 Sep 94 p 5

[Interview with Ayatollah Razvani by RESALAT; place and date not given]

[FBIS Translated Text]

[RESALAT] In your opinion, to what extent does the interest-free banking law conform to the Islamic spirit?

[Razvani] What is meant by Islamic economy is production and service activities with permissible profit. The interest-free banking law that was ratified by the Majles and approved by the Council of Guardians conforms to Islamic economy fully in the above-mentioned sense. And because I have not had and cannot have an implemental role, I am not very knowledgeable about it. Of course, some of instances of violation have occurred, and I have learned about them, and I will mention them so that care will be taken in implementation. Of course, we cannot say that it is not imperfect. Every new system, before it is properly installed and works well, has a thousand deficiencies and problems. But the duty of the Council of Guardians and the Majles is to make the banking law conform to religious laws one hundred percent.

[RESALAT] According to what has been stated in jurisprudential and Islamic books, the implementor is a partner in profit and loss, even if the principle of the capital is harmed. Whereas, according to the present regulations, if the implementor for whatever reason suffers losses, he is responsible for returning the principle of this capital. Will the precise implementation of the religious laws not be harmed in this way?

[Razvani] In religious jurisprudence, the loss in capital belongs to the owner and has nothing to do with the implementor. The implementor becomes a partner in the profit in accordance with an agreement with the owner of the capital, and this is if the contract is signed without a condition. But if the condition is made in the limited partnership contract, and this condition has no other problems, such as being contrary to religious law, the contract is valid.

And the bank will put guarantees of the capital as a condition in the limited partnership contract for the owner of the capital, and therefore it is not contrary to religious laws.

In regards to the implementor being a partner in losses, it will not harm the implementation of religious laws, because conditions permissible in the contract and conditions binding both parties are permissible. First, the conditions must not be contrary to religious law, such as an additional amount in interest-free loans. (In an interest-free loan in which a condition is made to receive an additional amount, it is not permissible because it is contrary to religious law.) Secondly, it must not be contrary to the requirements of the contract.

The condition guaranteeing the capital is not contrary to religious law. If a person gives money to someone and wants to make its security a condition, it is neither contrary to religious law nor the requirements of a contract, since in contracts between limited partners it is

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not required that the capital be easily wasted. If it is not made a condition in the contract, in case of losses, the capital of the owner will be the loss, and it is the nature of property. When it is lost, the owner suffers losses. But if he makes a condition, the condition is permissible.

[RESALAT] In your opinion, with the implementation of the interest-free banking law, to what extent we can respond to the needs of the society in today's complex financial world?

[Razvani] This is an expert matter and is unrelated to religious laws. But concerning to what extent we can respond to the needs of the society in today's complex financial world, it must be said, if we want to categorize the needs of the society, the needs of some people are for living requisites, those who lack resources. Some may not be able to work and need assistance. Some of those who cannot work are old and disabled or have a physical defect that prevents them from working. These receive assistance in the new interest-free banking system in a section called interest-free loans, to a great extent. These groups that I mentioned are even unable to pay their debts and have not been taken into consideration in the banking system. This section has not been taken into consideration at all, but it exists in Islamic law, and Muslims are obliged to meet the needs of this stratum in the society through religious taxes, charity, obligatory and recommended taxes, and the like. The rest of the society can fulfill their needs by working. These also consist of two groups: those who lack capital and work tools and those who have capital. Those who lack capital have been taken into consideration in the interest-free banking law, so that their capital is provided. But providing capital does not mean interest-free loans. It is true that interest-free loans are recommended and are good. But they are for the group who have an urgent need for money and require borrowed money to meet their living expenditures. But a person who wants to invest and use the money in a large investment organization, in fact, in religious law, is considered undesirable when a person who does not have an urgent need to go and try to get interest-free loans. In this law, providing capital is taken into consideration for those who do not have it.

[RESALAT] In your opinion, does the numerousness of Islamic contracts not add to the bureaucratic complexity and relations and thereby increase social expenditures?

[Razvani] Islamic contracts are taken into consideration in order for the bank to have supervision over the way the funds are spent. It must be noted that the banks or the general government policy is based on banking funds not being spent on purchases, because, for instance, resources for purchasing housing have increased and demand increases and naturally creates inflation. For this reason, in places where the general policy of the regime requires activities, it has allowed it in accordance with these Islamic contracts. If these Islamic contracts were not to be observed and anyone who requested it would receive money, there would no longer be any supervision over actions, because he would have the authority to do anything he wishes. Hence, they do not add to the complexities. It requires bureaucracy, which cannot be helped.

[RESALAT] It seems that control in Islamic contracts is mechanical and artificial. Can a method be suggested that makes Islamic contracts "self-monitoring" (like what interest does in a capitalist economy)?

[Razvani] In the previous banking system, they would give the money and collect interest and no one had any control over it. But in the Islamic system, because the general policy of the regime is to spend money in particular ways and to have activities, in those sectors there must be supervision, which has its own special tools.

[RESALAT] We know that the role of the banks in economic development is very important. In your opinion, does interest-free banking achieve this goal? How?

[Razvani] Yes, it does. If the banks operate in accordance with the ratification of the Majles, this goal will be achieved. One of the goals of this law is moving toward achieving this goal.

[RESALAT] Instead of various kinds of loans, various contracts are used or the term interest and profit have changed to guaranteed and partial payment profit. What is your opinion in this regard?

[Razvani] This also in our opinion is not correct. When they say, for instance, that changes have not taken place in implementation, it is not true. Because, as I said, I do not know about implementation, I cannot give an opinion. But in fact, change has occurred. If someone in the previous regime went and received money from the bank, he had to pay interest and use the money as capital. Suppose he received one million tumans. This amount would cost him 1.1 million tumans. The capital that he would put in his books was 1.1 million tumans, and not 1 million tumans. But it is not so in this system, because they receive service charges on the gained profit from that activity. Certainly they take it from the profit. The 1 million tumans that was mentioned is the capital, not the 1.1 million tumans that causes inflation, and inflation which causes usury. In other words, prointerest borrowing is inflationary, but Islamic contracts are not inflationary. They are like the activities in the market. There is no difference between the Islamic banking system and the transactions in the market, except that the bank must regulate the activities of the contracts in a way that the money returns as soon as possible, like in the market, when money is invested in long-term affairs for several years.

[RESALAT] The profit that banks receive from the funds paid forces the investor to add the paid profit to the price of produced goods. In your opinion, does this not cause inflation?

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[Razvani] No, that is not so. That is not the truth of the banking system, and a person who does this makes a mistake because the bank receives money from his profit. Whatever amount the bank receives is based on an examination of the project and annual profit and, for instance, it receives half of it. In other words, the bank evaluates the project earlier in terms of profitability and then invests in it. Precisely like the obligation that religious law has determined concerning people's income or the taxes that the government collects on people's income. If a person has an income and pays taxes, can he count that as a part of his capital and say that he has spent so much and his capital is so much and gain profit on the basis of capital? That is never true, contrary to those persons who received money with interest, which would not cost him one million tumans but 1.1 million tumans.

[RESALAT] Granting funds in the present banking system requires serious and persistent supervision for proper implementation. But it seems that the process of supervision in present banking is very weak and insufficient. Considering that many of the officials of the banking network are not familiar with Islamic contracts and some do not believe in it, and because the possibility for violations is great, what do you suggest to eliminate this problem? (For instance, one can mention the banks falsifying the appearance and forging receipts.)

[Razvani] The first part of your question is correct. Of course, you must present sufficient documents so that we can show them to the officials and say that according to these documents, they say that you act weakly, what is your answer? In regards to the first part of the question, our suggestion is that banks try harder to train the employees about Islamic contracts, and officials must also be trained. Also, officials who believe in it must be employed, those who believe and are Muslims. Of course, mostly the violations stem from those who come and want money. The policy of the bank, that is, the policy of the regime of the Islamic Republic, has found it expedient to allocate money in particular cases and not to allocate it to some cases. When applicants come to receive funds for sectors that are not granted and naturally are prohibited, they commit violations. Otherwise, according to the law, for sectors for which funds are granted, there should not be any violations. Officials who believe and are Muslims, sincere, and interested in the regime of the Islamic Republic must be put to work with sufficient training so that, God willing, these violations are prevented.

[RESALAT] What should be done in regards to supervision over the affairs of the banks?

[Razvani] That is also the same. After all, the implementors, those who are put in change, must all be committed. In short, they are the implementors of the law and must be committed to the law.

[RESALAT] At the present time, in order to receive funds from the banking network, there is much bureaucracy, such as bookkeeping, signing numerous contracts, finding guarantors, long-term evaluation of the project by experts, and putting up exorbitant collateral. Do such instances conform to the spirit of Islamic laws? If not, what do you suggest to eliminate them?

[Razvani] As you know, all of this concerns the violations by the customer. In other words, if you are able to do something and be assured that when a person comes to the bank and receives money, he meets his obligations, there would be no need for supervision and inspection. Supervision and inspection are due to the fact that the culture that forces the person who comes to the bank to fulfill his obligations does not exist, and this has caused problems. In our opinion, there is no ultimate solution except to make the culture in the society a correct one.

[RESALAT] The grand leader emphasized in the policies governing the Second Plan necessary decisions to revitalize the interest-free loan tradition in the whole banking network in the country and facilitating the reception of funds for those who have working, intellectual, and technical capabilities. How is the operation of the banking system in this regard so far, and what do you suggest to achieve these instances in the best possible way?

[Razvani] There are two issues in this question. One concerns those who have intellectual and working capabilities so that they are able to get money from the banking network, and it is correct. The tools of work must be given to a person who is capable of working, because if you give the tools to a person who is not capable of working and he wants to work, the work is delayed. And if he wants to give it to someone who is capable of working, a middleman is created, which promotes inflation. Hence, the tools for work must be given to the person who is capable of work, and there is no doubt about that. In regards to the tradition of interest-free loans, as I said, this tradition, according to religious law, is for instances when a person has a vital need and his expenditures are restricted at the present. In this case, one of the solutions for the person is an interest-free loan, and it is a very good tradition. But no person of sound mind would say to give interest-free loans to a person who has the capability for work and has the tools. In other words, if he can make the economy profitable and thrive by himself and gives it to another, this is not an interest-free loan, it is generosity, and generosity is also recommended in certain cases.

[RESALAT] What is your opinion about the late payment fine that is known as credit usury?

[Razvani] Late payment fines in cases that are not mentioned as a condition in the contract, when the person happens not to be able to pay on time and is asked to pay more, is money by force, is not usury [as published], and is prohibited, because it is "eating" the property and is prohibited. Usury is when money is collected in exchange for time extended to the other party.

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This is not the case. But in late payment fines, time is not assigned, and they say that on the determined date, for example, one year, you must pay the principle of the loan and do not give more time. But they say that if it exceeds one year, instead of 1 million tumans, you must pay 1.1 million tumans, rather than if it exceeds one year, I will give you one day. That is not the case at all, that he wants to collect the amount for one day.

Receiving late payment fines, if it is according to the contract, is no problem, and when there is no content, it is "eating" on the property and is prohibited. In other words, the money that is received from the other party, if it is not mentioned in the contract and the debtor also does not give it willingly, is "eating on the property" and is prohibited. But if in the contract any condition is made, because it is not usury and the condition is not contrary to religious law, it is binding.

[RESALAT] Are these contracts that have additional conditions proper?

[Razvani] I said that additional conditions are not usury conditions to be contrary to religious law. Suppose two persons are partners and say that the condition in their contract is that at the end of the year the material will be sold and the money of the investor paid. If it is not done, the investor will say to the implementor, I will take this amount from you, and this is not usury.

[RESALAT] What is your opinion in connection with the present banking system?

[Razvani] In terms of the law, the ratifications and what must be ratified, the bylaws, the instructors, and the law itself, they are 100 percent in accordance with religious law.

[RESALAT] Many of the bank directors say that they face problems in implementation. In your opinion, in this respect, is there a need to review the law or must the implemental problems be resolved in another way?

[Razvani] The bank organizations must be equipped in other ways to implement the law carefully and properly. They are not equipped for it, and in order to achieve this, strong trading must be done and selection must also be precise. With sufficient training and selection, the issue will be resolved.

[RESALAT] In limited partnership contracts, a partial payment profit is determined and the banks pay it. How is this?

[Razvani] First, according to the banking law, the bank is not the implementor in limited partnerships in the sense that a person comes and invests and the bank becomes the implementor in a limited partnership contract. The bank is a representative.

[RESALAT] Then in this case, there is no problem concerning partial payment profit? Is the representative allowed to do what he wishes?

[Razvani] No, there is no problem, if it is an absolute representative. And because the bank is an absolute representative, it can act as it wishes.

*Ayatollah Mohammad Mo'men

95LA0007D Tehran RESALAT in Persian 5 Sep 94 pp 1, 5

[Interview with Ayatollah Mohammad Mo'men by RESALAT; place and date not given]

[FBIS Translated Text] The text of the interview of RESALAT with Ayatollah Mohammad Mo'men, a member of the religious jurists of the Council of Guardians and the director of Qom Seminary, is as follows:

Pointing out that in economic and commercial transactions on the whole and in banking transactions specifically the laws of Islam that have been expressed by the infallible imams must be used as the criteria, Ayatollah Mo'men added: In the previous tyrant's regime, the issue of banking was established on the giving and receiving of interest and in this area, giving and receiving interest is one of the certain prohibited acts, and the Koran also states in regards to usury, If you do not follow the decree of prohibition against usury, you have declared war on God and the Prophet.

He emphasized: The prohibition against usury is so important that violations in this case are considered war against God in the Koran.

Hence, the Islamic government and regime is expected to totally uproot the issue of usury and receiving interest, and for this reason the interest-free banking operations law was ratified in the Majles, and the religious jurists of the Council of Guardians carefully tried to make this law conform to the jurisprudential laws as much as possible.

In regards to the interest-free banking operations law, Ayatollah Mo'men added: This law is in accordance with religious jurisprudential criteria, is not contrary to them, and is approved by the Majles and the Council of Guardians. And, in order to be more certain, the Council of Guardians obtained the operational and implemental bylaws of this law from the director general of the Central Bank at the time. What is in the law is the elimination of usury from the banks.

Stating that the bank can engage in profitable religious transactions on behalf of persons who have deposited this capital in the bank, the director of Qom Seminary said: For example, the Islamic banking law mentions limited partnership, sharecropping, and all the profitable Islamic contracts. Whereas if all the capital that is used in transactions belongs to the bank, all the profit obtained from the transaction also belongs to the bank. But if this transaction is done with people's money, a part of the profit belongs to the banks as service charge, because the bank, like a merchant who is given money by someone to do a transaction on his behalf and sets a fee for representing him, takes something from the profit.

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He added: The bank can employ people's capital in the form of profitable Islamic contracts and take some of the resulting profit for itself as a service charge and give some to the owner of the capital.

He emphasized: The interest-free banking operations law and its implemental bylaws are both in accordance with standards of religious law, and if the employees and implemental officials of the banks act on the basis of the implemental bylaws, we shall have no problems contrary to religious jurisprudential criteria. Hence, the training of bank employees for the implementation of the interest-free banking operation is very important, because the transactions and contracts that take place must be in the form of Islamic contracts and implemental bylaws.

In response to the question, "Can a bank, as a representative, promise profit to its client?" Ayatollah Mo'men said: The bank works in place of the owner of the money. It is like you give me some money, and I give you a 100-percent promise to engage in legitimate business and give you some amount of profit every month. There is no problem here. If one is certain that this money is used in legitimate transaction which is profitable, there is no problem.

The member of the religious jurists of the Council of Guardians in regards to the procedure to spend the funds that banks put at the disposal of applicants added: If money is placed at the disposal of a person to buy or build a house and this person uses it to buy carpets or something else, this is not allowed. If that is the case, he does not have the right to spend the money on buying a carpet to sit on rather than building a house. And if he does this, the contract that he has signed is certainly void. Hence, neither does the recipient of the money have the right to buy carpets with this money; and if he does, the bank does not have the right to get more money from that person than the amount in the contract, and the signed contract does not create ownership of the profit for the bank. Rather, as soon as it learns about it, the bank can immediately take back the money from the person, and if it does not it cannot receive an additional amount to what is in the contract. Hence, fabrications by both sides of the contract are problematic.

In answer to the question, "The bank claims that it is responsible for people's capital and must somehow protect people's capital, and the bank cannot suffer losses, hence, what must the bank do?" Ayatollah Mo'men said: Being responsible for people's money, the bank is not allowed to obtain it in prohibited ways, and the bank must obtain the money rapidly through legal ways.

In response to the question of whether in engaging in a transaction in limited partnership contracts, when money is placed at the disposal of the implementor, if the person who has received the money suffers losses, it is not his responsibility to pay the principle, while at the present time no attention is paid to this matter, he said: If in the contract between the two parties this condition is not made, the person is not responsible to pay the principle, but if in order to be more certain in regards to investments by individuals, it is made a condition in the contract that they are partners in the profit, but the implementor says that in case of losses, he will pay from his own capital, and the banks mention in another contract the condition of approval of the investors in this case, which is made as condition of representation contract, there is no problem.

*Amir Aslani, National Bank Managing Director

95LA0007E Tehran RESALAT in Persian 8 Sep 94 p 6

[Interview with Amir Aslani, Managing Director, National Bank, by RESALAT; place and date not given]

[FBIS Translated Text] In response to the question, "To what extent does the interest-free banking law conform to the spirit of Islamic economy?" Amir Aslani said:

The interest-free banking law was prepared on the basis of Islamic contracts and fully conforms and is in harmony with the principles of Islamic economy. All the funds granted, depending on the kind of transaction, are based on one of the contacts, on the basis of which Muslims have for centuries carried on their transactions, and the Islamic economy has been based on those principles.

In response to another question by our correspondent, "According to what has been stated in religious jurisprudential and Islamic books, the implementor is a partner in profits and losses, whereas according to present regulations, no matter for what justifiable reason the implementor suffers losses, he is responsible in returning the principle of the capital. Will precise implementation of religious laws not be harmed in this way?" Amir Aslani said:

The issue of the implementor being a partner in profit and also in losses has not been stated in religious jurisprudential books absolutely. The opinion of the Imam in this regard is that the implementor may, if he has lost in the transactions, provide the capital from his personal property. In response to the question, "With the implementation of the interest-free banking law, to what extent can we respond to the needs of the society in today's complex financial world?" the director general of the Melli Bank said:

For more than 10 years this law has responded to the monetary needs of the society, and it is the best actual reason for anything.

In response to the question, "Would the large number of Islamic contracts increase the bureaucratic complexities and relations and in this way increase social expenditures?" he emphasized:

The large number of Islamic contracts is dependent on the nature of the transactions. Can it be said that the large number of Islamic contracts is cumbersome throughout the society? For example, do we say that it is

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better to engage only in final transactions or selling and buying instead of renting, service fee contracts, representation, arbitration, limited partnership, partnership, and leasing, and reduce the number of Islamic contracts? These are also necessary in banking, so that, considering the nature of transactions, appropriate contracts are used. The large number of Islamic contracts has enabled us to respond to various needs throughout the society.

In the continuation of this interview, in response to the question, "It seems that the method of control in Islamic contracts is mechanical and artificial, can a method be suggested in which Islamic contracts become self-monitoring?" Amir Aslani said:

A system can be devised to control banking transactions. This can be done by establishing a data bank and using the banking system of the retail and wholesale prices on the market and control of transactions by the related branches and units.

Concerning to what extent interest-free banking has been successful in the economic development of the country, the director general of the Melli Bank said:

The role of the bank is to inject money into sectors of the society that are projected in the plan and will result in the attainment of the economic goals of the society and its economic development.

In continuation, he added: For example, monetary policies coordinated with financial and other economic policies determine that certain percentages of the resources of the banking system be allocated to the economic sectors, including industry, agriculture, building, and trade. The banks act in accordance with the announced policies, and economic development is achieved. The banks have performed this duty well in the First Plan.

In response to the question, "If you do not regard the present system in conformity with Islamic laws, what system do you suggest to take its place?" Amir Aslani said:

The regulations governing the present banking system conform to the Islamic laws and, if they are implemented precisely, while adhering to Islamic laws, perform the role of banking in the economy fully.

In response to the question, "Some people believe that following the ratification of the interest-free banking operation law, the system has not changed, but merely in place of the term loan, funds, and in place of various kinds of loans, the term contracts is used, or interest has changed to guaranteed and partial payment profit. What is your opinion in this regard?" he said:

This viewpoint is not correct, since there is no evidence for it. Islamic contracts, economically, financially, and in terms of the current laws of the country, each have their own special effects and consequences. Lending is also a particular contract, the characteristics of which are clear as stated in the Koran, and it cannot be said that buying and selling which brings profit is like for-interest lending, which guarantees additional amounts.

In regards to supervision over the proper implementation of Islamic contracts in the banks, the director general of the Melli Bank said:

Not all of the bank employees have gone through the courses on Islamic contracts, but the directors and officials in charge of transactions have and are knowledgeable about Islamic contracts. Obviously, the inspection departments of the banks must plan for more control, and it must be said that even though in some bank transactions it is possible for a customer to present a forged receipt and receive funds under the pretext of buying and selling by installment, the large transactions of the bank cannot generally be in appearance only.

In response to the question, "Now to receive funds from the banking system, there is service bureaucracy, such as bookkeeping, signing numerous contracts, finding guarantors, and giving collateral. Can such instances conform to the spirit of Islamic laws, and what suggestion do you have to eliminate them?" he pointed out:

One of the main important conditions of transactions for banks is being sure of the return of the funds that are granted. Hence, it is necessary to examine the project, which requires time. Of course, the banks are determined to shorten this period as much as possible, or receiving collateral in cases when there are no assurances that the funds will be returned is necessary, and this is not contrary to Islamic laws.

In the conclusion of this interview, the director general of the Melli Bank said in regards to the operation of banks concerning the payment of interest-free loans and the revitalization of this divine tradition, according to the statements of the grand leader:

In regards to the operations of the banking system concerning interest-free loans, from 1363 [21 March 1984-20 March 1985] interest-free loan resources have been paid after establishing legal deposits to meet the needs of applicants that have been projected in the law and the bylaws.

Based on the implemental instructions for interest-free loans, banks grant interest-free loans for the necessary personal needs of individuals, including expenditures of marriage, buying a dowry, treatment of illnesses, providing and repairing homes, educational expenditures, providing housing in villages, and also the creation of employment in production and cooperative workshops.

On the other hand, based on other regulations, generally, banks are instructed to grant interest-free loans in affairs such as reconstruction of buildings destroyed in the war, earthquakes, and unexpected events, the establishment of pharmacies in villages, cultural activities, inventive projects, etc.

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*Engineer Farshchian, Housing Bank Managing Director

95LA0007F Tehran RESALAT in Persian 8 Sep 94 p 6

[Interview with Eng. Farshchian, Managing Director, Housing Bank, by RESALAT; place and date not given]

[FBIS Translated Text]

[RESALAT] In your opinion, to what extent does the interest-free banking law conform to the spirit of Islamic economy?

[Farshchian] In my opinion, if the above-mentioned law is implemented properly, it conforms quite well to Islamic economy.

[RESALAT] According to religious jurisprudential and Islamic books, the implementor is a partner in the profit and loss, even if the principle of the capital is not harmed, whereas according to present regulations, if the implementor for any justifiable reason suffers a loss, he is responsible for returning the principle of the capital. Will the precise implementation of the law not be harmed in this way?

[Farshchian] It should be noted that the interest-free banking law, in addition to having been reviewed in the Majles by some of the religious jurists and scholars of Islamic sciences, has also been ratified by the Council of Guardians, which terms of religious jurisprudence and the Constitution oversees the ratifications of the Majles.

[RESALAT] In your opinion, with the implementation of the interest-free banking law, to what extent can we respond to the needs of the society in the complex financial world of today?

[Farshchian] If arrangements are made so that other effective factors in the economy of the country also become coordinated with the above-mentioned law, the proper implementation of that law will be effective in the national economy and can respond to the needs of the society harmoniously.

[RESALAT] In your opinion, will the large number of Islamic contracts not add to the bureaucratic complexities and relations, thereby increasing social expenditures?

[Farshchian] The large number of Islamic contracts is proportionate to the economic needs and relations of the society, and except for contracts needed by the people, no new contracts have been added. Hence, every contract has its own particular place and requires time, work, and expenditures, as do other contracts.

[RESALAT] It seems that the method of control in Islamic contracts is mechanized and artificial. Can a method be suggested that would make Islamic contracts "self-monitored" (like what interest does in a capitalist economy)?

[Farshchian] It does not seem that the method of control is artificial, because supposedly in this bank in the civil partnership sector in the construction of buildings, while the management of the implementation of the partnership task is transferred to the partner, in the course of the partnership, at particular times, the bank experts visit the building site and verify the progress and the spending of the funds that are paid to the partner, and the bank funds are placed at the disposal of the applicant and the bank partner in such a way that the project will be completed by spending the last part of the funds for the building, and this is actual and real control.

[RESALAT] We know that the role of the banks in economic development is very important. In your opinion, does interest-free banking help us achieve this goal? How?

[Farshchian] If the interest-free banking operations and its bylaws are implemented in the way intended by the legislature, certainly the role of the banks in turning the national economic wheel will be as it should be, because the legislature encourages the banks on the whole primarily toward developmental and productive and then service activities, and not in an indifferent manner but in the form of an effective overseeing component.

[RESALAT] If you do not consider the present system to be in conformity with Islamic laws, what system do you propose, and what are its characteristics? Can this system, while having the positive characteristics of present banking, be safe from its problems?

[Farshchian] If there are problems in the banking system, they concern the method of implementation of the law and regulations that can be reviewed and reformed. Otherwise, the law itself has no problems.

[RESALAT] Some believe that following the ratification of the interest-free banking operations law, the system has not changed, that merely in place of the term loan, funds is used, and in place of various kinds of loan, the term contracts is used, or the term interest has been changed to profit and guaranteed profit to partial payment profit. What is your opinion in this regard?

[Farshchian] That group who believes this is made up of those who do nothing positive and do not see it. What they do is find fault, and you must admit that it is easy to find fault with anything, even if it is not true.

When the ratified law of the Majles, which was approved by the honorable Council of Guardians, expresses the permissible, legal, and legitimate course of action and considers the actions and contracts that are mentioned in the law acceptable and legal, it does not seem that the unjust and perhaps intentional interpretation of some people should affect the nature of the issue. Also, people's lack of familiarity with the procedures for implementing the law and the operations of the banks results in such interpretations, in which case it is better to explain it to the people in a precise and organized program.

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[RESALAT] At the present time, in order to receive funds from the banking network, there is serious bureaucracy, such as bookkeeping, the signing of numerous contracts, finding guarantors, lengthy evaluation of the projects by experts, and putting up exorbitant collateral. Do such instances conform to the spirit of Islamic laws?

[Farshchian] In the sacred religious law, it has been recommended that in every contract that is signed between two or several people, [Koranic phrase in Arabic not translated]) must be written and signed, and also asking for a guarantor or sufficient security from the recipient of the funds, especially when it involves other people's (depositors') money, is natural.

On the other hand, the law has instructed the banks that they have the right to use the money of the depositors when, in accordance with preliminary estimates, they are certain about the return of the principle and the expected profit. It is natural that in order to obtain this assurance, banks have to seek expert opinions to determine the financial and economic justification of the project and also to determine the amount of the funds to be granted. Do these affairs not conform to the spirit of Islamic laws?

[RESALAT] The grand leader emphasized in stating the policies that govern the Second Plan the necessary decisions to revitalize the interest-free loan tradition in the whole banking network of the country and facilitate the reception of funds for those who have the occupational, intellectual, and technical capabilities. How would you rate the operation of the banking system in this area so far?

[Farshchian] All the recommendations of the grand leader, both in the budget law and in the Second Economic and Social Developmental Plan, have been precisely considered by the related officials, and for the purposes referred to in this paragraph, particular preparations are made, and their role in achieving the goals intended at the [words illegible] that has been projected for them is very important and sensitive, and it is hoped that by achieving the projected goals, the intention and views of the grand leader will be achieved.

*Dr Sheybani, Central Bank Deputy Director

95LA0007G Tehran RESALAT in Persian 8 Sep 94 pp 6, 19

[Interview with Dr. Sheybani, Deputy Director, Central Bank, by RESALAT; place and date not given]

[FBIS Translated Text]

[RESALAT] In your opinion, to what extent does the interest-free banking law conform to the spirit of Islamic economy?

[Sheybani] In its expertise dimension, first the interest-free banking system law was examined with the help of the seminary scholars and experts of the Central Bank, and the Majles, which consists of a number of religious jurists, ratified it. Then it was approved in the Council of Guardians, six of whose members are religious jurists. And this proposal was honored because it was determined by the late Imam. [sentence as published] Hence, in my opinion, this law conforms to the spirit of the principles of our religious jurisprudence and Islamic rules and principles. In the Islamic banking seminar held every year, we invite the great scholars of the seminary to participate in discussions on this issue. Hence, there is no doubt that it conforms to the Islamic laws. But in regards to your question concerning conformity to Islamic economy, it must be said that the Islamic economy is a large system, which includes the laws governing production, distribution, and revenues and support for the vulnerable and working stratum, and for us to see whether or not it conforms will be a little harder. But in regards to whether it is a usury system or not, there is no doubt that it is not. And when it is endorsed by great people, certainly I can only believe in and trust it by emulating the sources of emulation.

[RESALAT] According to what has been stated in religious jurisprudential and Islamic books, the implementor is a partner in profit and loss, even if the principle of the capital is not harmed, whereas according to present regulations, if the implementor for whatever justifiable reason suffers losses, he is responsible for returning the principle of the investment. Is the precise implementation of religious laws not harmed?

[Sheybani] On the whole, what you say is correct, in our religious law, a condition is accepted according to the phrase "the conditions of the faithful are accepted," in other words, if the bank itself wants to make a condition in the contract that it will guarantee your capital, there is no problem in terms of Islamic laws, and it can guarantee the principle of the capital. If someone wants to say, I will guarantee the principle of the investment, it will not be usury.

[RESALAT] In your opinion, with the implementation of the interest-free banking law, to what extent can we respond to the needs of the society in today's complex financial world?

[Sheybani] I must say that when we introduced the interest-free banking law, it solved part of the problem, and no one claimed that it would solve all the financial and monetary market problems. In the capitalist economy, if we start the discussion from the time of Adam Smith, so far 300 or 400 years have passed, and perhaps more than 300,000 to 400,000 scholars have worked on this economy, and it has now reached a point of having thousands of problems. Islamic economy, or Islamic banking, mostly in terms of its implementation and not seminary discussions or theoretical discussions, has just found the opportunity to show itself, and this is not the whole matter. We must work on it. It is the duty of the seminary scholars and the duty of the economists and banking experts to sit together and solve the rest of

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the problems. We still have problems and have not resolved the whole thing. For example, at the present time, in the capital market in which we operate, it is the deposits and funds, whereas in the capital market of the West, there are many other tools, such as partnership papers, investment certificates, investment companies, bonds with or without names, general bonds, special project bonds, and mutual funds, which are various kinds of financial tools that utilize the capital in the Western capital market. For example, if we want to point to the lack of existence of tools for providing for resources, we must say that if the government has financial needs, the only way is to get [the money] from the Central Bank, which is one of the worst ways to provide finances. Whereas, in the Western markets it is said, What does the government want the money for? If it wants it for the general budget, it takes it from the Central Bank or publishes more bonds. In other words, it borrows from the people and returns it to the people. Or if it wants it for a particular function, for instance, for road building, it publishes bonds, shares, or investment certificates. After building the road, it charges taxes and returns the people's money with interest. I have asked the religious scholars and realized that bonds can be used in the country in the form of partnership shares.

One of the scholars said: Because the principle of the debt does not change, regarding the bonds that are sold to someone, first, because the principle does not change, the extension that can be arguable for some people in terms of time involvement is nonproblematic in terms of religious law. Hence, there are no religious and jurisprudential problems. But we must work on it. In the same way, Islamic economy, which consists of verses, reported sayings, and opinions of scholars or rules sent by God, is in a general form, and the duty of the experts is to work on these issues and turn them into economic equations. In regards to the new issues as well, we must work in terms of religious jurisprudence. Of course, it should be mentioned that "checks," as they are called in English, is originally a Persian word. When I was reading the *Travel Memoirs of Naser Khosrow*, the statement was made that at that time a person would go and put his property in trust somewhere, and he was given a sheet called a check that he could cash later. This word was called "sek" by Arabs, which was pronounced check in English.

At the present, we have fair financial and monetary tools, and our investment market is shallow, which we must broaden.

[RESALAT] In your opinion, does the large number of Islamic contracts not add to the bureaucratic complexity and relations, thereby increasing social expenditures?

[Sheybani] No. Quite the contrary. The more kinds of contracts we have and the richer the tools, the stronger we are. In economy, the number of tools helps. Because whenever you want to operate, you have the tools for it. In the present world, complexity is much greater, and we have few tools with which we must create variety.

[RESALAT] Are all the Islamic contracts used in the banking system?

[Sheybani] Yes, almost all of them are used. On the whole, the remainder of new funds granted by banks in 1372 [21 March 1993-20 March 1994] was 12,486.6 billion rials [R] in installment sales, R4,831 billion in civil partnerships, R2,093.1 billion in limited partnerships, R1,663.7 billion in service charge contracts, R1,288.7 billion in interest-free loans, and R27.1 billion in purchasing of debts.

[RESALAT] It appears that the method of control in Islamic contracts is mechanical and artificial. Can a method be suggested in which Islamic contracts become "self-monitored" (like what interest does in the capitalist economy)?

[Sheybani] This is a major discussion, because in Islam there are conditions for making things allowable. Sometimes, the society and the economy are smaller, and these laws can be implemented with more care. When you face a large society, in practice you may face problems, and implementation might need to take a different form.

Of course, that does not mean harm to the principle of the laws. Suppose several millions in funds are granted (we are talking about millions, not thousands or a hundred thousand) to train 130,000 employees in the country to work throughout Iran. It is not possible to supervise only at the level of signing a contract in the presence of a religious scholar. Of course, every year, we train a countless number of bank employees in Islamic contracts, and they also implement them. But if in several million contracts one or two cases or a thousand cases are not as they should be, this does not negate the basis of the matter.

Now, in this system, we think that it is acted upon precisely in accordance with the training. In some cases, some uninformed person might say, No, sir, this is the old system, but this is wrong, because banking operations may seem in appearance to be the old system, but their nature is not the old system.

When the bank engages in partnership on behalf of the depositor, it wants its share and profit. Hence, the implementor cannot say, I will not give anything. When the bank becomes a partner in a procedure, it says to the recipient of the funds, of the money that you receive, you must pay some percentage as the bank's share, and the recipient of the funds must pay a share in addition to the principle, and he thinks that since he is paying more, it is usury. Now, see what we do on this side. When the bank gives funds to buy a house, the house is owned by the bank. Then, for instance, in the rental contract with the option to buy, the bank rents the house to the recipient of the funds and says, Every year you give us a certain amount, after 15 years, you will own it. And, as in most Islamic contracts, the bank adds its profit share onto the same rent with the option to buy.

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From an expert point of view, when the bank becomes a partner with you, it gives you, for instance, 100 million tumans to build a factory together and says, I will become a partner and give you 100 million tumans, and I want 120 million tumans. This 20 million that you give extra, you must not think that the bank has received as interest, because the bank is in partnership with you.

[RESALAT] What if the recipient of the funds has losses instead of profits?

[Sheybani] If he has losses, because the bank funds are in joint ownership and the bank participates in more than one project, if it suffers losses in one project, it will gain profits from the rest. Because it has guaranteed the principle, there is no problem in terms of religious law, and because the profit is also in joint partnership and is in the fund. If it has losses in all projects, the bank cannot give the individual anything, and it is contrary to religious law.

[RESALAT] We know that the role of the banks in economic development is very important. In your opinion, will interest-free banking help achieve this goal? How?

[Sheybani] In all economic theories, growth without investment will not be a successful growth, and because not all the deposits will go into investments, certainly the bank can be the cause of economic development. At the present time, there is a major theory in economic issues, even capitalist economy, that is called partnership economy. Partnership economy, is in fact a kind of Islamic economy that we practice, and which they have realized is more authentic, because speculation and usury sometimes face great failures, as for instance in the economic crisis of 1929 in the United States or the drop in stock prices that occurred a few years ago, in which the United States alone lost $500 billion. Such things happen when there is speculation, whereas in Islamic banking these things cannot happen, because at the end of the year, the profits are settled. Therefore, speculation happens less in this system.

Another point is that because in the Islamic system there is supervision over contracts, that is, the bank supervises spending and does not give all the funds at once, rather as the work advances, this action has an advantage. For example, if all the money is given to a person at once, he might not build the building at all. But, as he finishes the first floor, they give the money. In other words, it causes production rather than the other party taking the money and doing whatever he wants.

[RESALAT] If you do not consider the present system in conformity with Islamic laws, what do you suggest? And what are its characteristics? Is this system capable, while having the positive characteristics of the present banking, of safeguarding against its problems?

[Sheybani] Based on the reasons that I mentioned and based on the arguments that I have heard from high-ranking scholars, the law of this system is undoubtedly in full conformity with the spirit of Islam and our religious jurisprudence. And its implementation is proper from all channels.

If mistakes occur, it does not mean that the law is a mistake. The law is certainly Islamic and supervision over it is also Islamic. In regards to training, also, I said that every year about 10,000 people are trained in Islamic contracts.

I do not claim that at the present time all is carried out according to the law, 100 percent. Rather, we must help to advance this day by day and supervise it, and the supervision must be constant.

[RESALAT] Some believe that after the ratification of the interest-free banking operations law, the system did not change, that merely in place of the term loan, funds, and in place of various kinds of loans, the term various contracts are used, or the term interest is changed to profit and guaranteed profit to partial payment profit. What is your opinion in this regard?

[Sheybani] If there are particular instances of a person having spoken inexpertly, they should not be taken as the norm. This doubt is created because in both systems an additional amount is paid by the recipient of the funds, and when they see that the two are similar, they conclude that, therefore, the principle of the law is the same, whereas they are completely different, contrary to each other. And it must also be mentioned that money capital is not free of charge in the world and in economy.

It is not free, but capital is in fact the extract of hard work, and 1 million tumans is the extract of the hard work that one party is placing at your disposal, and it is not for free. Only one kind of loan exists in the bank that is free of charge, and that is the interest-free loan, which is called a loan and is not called funds. We must see where the source of the money is. The source of the money is the people's deposits, and because the people have deposited money to go to work and yield its profit, if we expect that if it is free it is Islamic and if it is not free it is usury, this is a mistake. Islam never says this. In fact, Islam says, "people must strive." Capital cannot be free of charge, because someone has worked for this capital, and this capital is the essence of that person's hard work which he has given you.

[RESALAT] Granting funds in the present banking system requires serious and pursuant supervision for proper implementation. But it seems that the process of supervision in the present banking is very weak and insufficient. Considering that many officials of the banking network are not familiar with Islamic contracts, and some do not believe in them, and since the possibility of violations is high, in order to eliminate these problems, what do you suggest? (For example, we can mention the facades and pretenses in the banks and forged receipts.)

[Sheybani] This is true and the reason is that some of the officials are not familiar with Islamic contracts. With the

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planning that has been made, every year about 10,000 employees are trained in Islamic contracts, and this deficiency gradually will be eliminated. And as for those who do not believe in them, I must also admit that, in any case, in a large complex we might have people in the banks who are not Muslims at all or do not believe in these contracts. Of course, efforts are made that they not be placed in this section.

Of course, some violations have taken place, or receipts have been forged. We admit it, and we are trying to strengthen our supervision. We also believe that supervision might not be sufficient for the purpose, and we must make it stronger and better.

[RESALAT] At the present, in order to receive funds from the banking network, severe bureaucracy exists, such as bookkeeping, signing numerous contracts, finding guarantors, lengthy evaluation of the projects by experts, and putting up exorbitant collateral. Do such things conform to the spirit of Islamic laws? If not, what do you suggest to eliminate them?

[Sheybani] At the present, evaluation exists in terms of absorbing deposits, granting funds, and how much the funds conform to the government laws. In this case, the level of complaints by the people about one bank or a branch is also the criterion for promotion in the banking system, and recently we have considered the proposal to decrease collateral for some funds. In other words, the fact that you say there is serious bureaucracy involved in receiving funds from the banking network is true, and we are truly trying to remove this bureaucracy, and you are right. The criterion in the banking system is the contentment of the people. In other words, we always say that if there is no money in the bank, this is due to the bank's lack of success.

[RESALAT] The grand leader emphasized in regards to the policies government the Second Plan necessary decisions to revitalize the interest-free loan tradition in the whole banking network, and facilitating obtaining funds for those who have the money, intellectual and technical capabilities. What has been the operation of the banking system in this regard so far and what is your suggestion to achieve this in the best way in the future?

[Sheybani] We must place the statements of the grand leader at the top of the affairs, and at the present time, the banks are trying to absorb interest-free deposits and not the other cases, and this is not profitable for the bank. Interest-free loans are used in many areas, such as employment of combatants; allocation to production cooperatives and the Martyrs Foundation schools; the establishment of pharmacies in villages and oppressed areas; helping married draftees, self-sacrificers, and earthquake victims; and marriage loans to the freed prisoners of war.

Of course, granting these funds depends mostly on the deposits of the people in this account. With the increase of these deposits, the granting of loans will also naturally increase. We also introduced a sort of interest-free loan, and it exists now as well in the form that someone who deposits in the interest-free loan account has the authority to say that we should give this loan to a particular person that he introduces.

[RESALAT] Is there a ruling in terms of religious law about receiving late payment fines?

[Sheybani] It is quite right. The religious ruling is that if the bank says to the recipient of the funds, You pay, for instance, one month late and we will take so much from you, this is usury. But if it says, If you do not pay on time, you must pay some amount, that is, the bank does not want the money to stay with the recipient any longer and receive additional amounts, these are two different cases. And in religious law, even the kind of idea or the kind of intention affects the matter and has been verified by scholars.

[RESALAT] One of the factors in the lack of success of the housing sector in the First Plan is considered lack of payment of banking funds. What is your opinion in this regard?

[Sheybani] Perhaps in the First Plan, a mistake that took place was that banking funds projected for the housing sector were 60 percent of the total funds, and for the industries sector for 1372 [21 March 1993-20 March 1994], only 600 million tumans, which is something impossible, because 600 million tumans is the amount of a cement factory alone, and considering the modification of the rate of foreign currency and its effect on industry, more funds should have been allocated. Second, if 60 percent of the banking funds were given to the housing sector, we neither had the bricks nor the cement. In fact, the possibility for absorbing this 60 percent did not exist.

Explanation and Correction

In the text of the interview with Dr. Sheybani, the economic deputy of the Central Bank, which has been published on page 6 today, the phrase "the late Imam verified it" is correct.

*Mohammad Hoseyn Kazemi-Namin, Sepah Bank Managing Director

95LA0007H Tehran RESALAT in Persian 10 Sep 94 p 15

[Interview with Mohammad Hoseyn Kazemi-Namin, Managing Director, Sepah Bank, by RESALAT; place and date not given]

[FBIS Translated Text] Economic division. Based on studies conducted, in the for-interest banking system of the past, more than 80 percent of the funds in the banks were used in services and trade, whereas within the framework of interest-free banking, this ratio has been revised, and so far 80 percent of the funds of the banking system are spent on other productive sectors.

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Mohammad Hoseyn Kazemi-Namin, the managing director of Sepah Bank, in an interview with the economic correspondent of RESALAT, making the above announcement concerning the essential role of the banks in the economic development of the court, said: The distribution of financial resources in various economic sectors is dependent on the monetary and credit regulations and policies of the Central Bank, which are devised by the Supreme Council of Economy and the Money and Credit Council.

In these policy makings, numerous factors, including the volume of money in circulation in the society, the rate of profit, priority in the economic sectors, effective tools in controlling inflation, and other economic indices, have been used as criteria for decisions. Ultimately the goals established in the note to Article 1 of the interest-free banking law, that is, the establishment of the monetary and credit system, with consideration for equity and justice, must be achieved in order to attain the economic goals and policies of the government.

Pointing out that some believe that in the capitalist economy "interest" is considered the controlling economic factor in monetary and banking affairs, he said: Nevertheless, in practice, the severe monetary and financial crises in the for-interest banking system are the result of these predetermined rates, and no economist or monetary affairs expert can determine with certainty that the interest can precisely have the necessary controls over the economy.

Control of and supervision over Islamic contracts has increased day by day, but in terms of quality, it is still not sufficient. The reason is the composition of the personnel of the banking system of the country, because it is controlled with a shortage of expert forces in the examination and supervision over Islamic contracts.

He added: In the interest-free banking [system] and its implemental bylaws, the limits and boundaries of banking operations have been desirably specified. In other words, the regulations require the banks to invest in activities that are the result of the evaluation of experts, indicating economic, technical, and financial justifications and projecting a desirable profitability in ratio to the amount, period, and other factors regarding investment.

In regards to the interest-free banking operations law, he pointed out: When we speak of the approval by the religious jurists of the Council of Guardians, doubting that this law is contrary to or contradicts the most minute jurisprudential foundation or does not conform to the spirit of Islamic economy is rejected.

Concerning the implementation of this law, he said: If in practice probable unsound competition is omitted from the banking system, and the media perform their mission in explaining the law in its jurisprudential and legal dimensions and in inculcating the authentic Islamic culture to public opinion, the law will be implemented better than planned.

Referring to the people's trust in the Islamic banking system, Kazem-Namin said concerning the legitimacy of "partial payment" profit paid by the banks to depositors. The projection of profit at the start of an activity by using the opinion of experts is the same as guaranteed profit and the like.

The managing director of Sepah bank said in regards to the supervision over the operations of the banks: The control and supervision over Islamic contracts has increased every day, but in terms of quality it is not sufficiently close to the ideal, and the reason is the composition of the banking system personnel. The banking system faces shortages of experts in the examination of and supervision over Islamic contracts.

In continuation, he added: The important point in improving the quality of supervision over Islamic contracts is coordination among the banks and avoiding unsound competition. Also, categorizing customers, in carefully examining their situation and the allocation of funds in ratio to and appropriate with the production units, and people's production capability and capacity, as well as observing religious issues by the customers, because sometimes they present forged receipts and cause problems.

In regards to the problem of the acquisition of funds from banks and the necessity for putting up exorbitant collateral and for extensive bookkeeping, the managing director of the Sepah Bank emphasized that Islamic contracts in the banks are binding and said: When a project or action relies on properties that have registered records, such as production units or any property in which production and service activities take place, in accordance with the law, it must be registered in the official records offices. Naturally, this requires heavy expenditures, and this has nothing to do with Islamic banks.

In another part of this interview, Kazemi-Namin said in regards to revitalization of the interest-free loan tradition and its role in the development of the national economy: Considering the growth and development of the national economy, especially in creating full employment and uprooting unemployment, increasing production and making the best use of expert and skilled manpower depend on the revitalization of the interest-free loan tradition through the banking system of the country; therefore, this issue will be attained desirably when it penetrates the social culture of all members of the society.

In regards to why the banks have not had appropriate operations in revitalizing the interest-free loan tradition, he said: The banks are among the limited financial and credit establishments affiliated with the government that have financial independence and do not use the government budget. Therefore, acquiring revenues to cover the expenditures and for the survival of the establishment is an undeniable necessity.

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Moreover, due to the implementation of the monetary and credit policies of the Central Bank, the possibility of employing all the existing resources to grant interest-free loans does not exist in the banking network. In continuation, Kazemi-Namin said: Considering that the foundation and the goal of interest-free banking operations is the observance of Islamic standards, justice, and equity, granting interest-free loans from the investment deposits is not possible for the banks.

He pointed out: The banking system can meet the financial needs of people with plans who have no resources by granting them interest-free loans when the people's deposits in such accounts increase.

The managing director of Sepah Bank, pointing out that in interest-free banking all the Islamic contracts are used within the framework of Western banking tools, added: Other Islamic countries, including Pakistan and Saudi Arabia, have not been able to make use of all Islamic contracts as much as our country has and only make use of interest-free loans.

Concerning the present problems of the banking system, referring to lack of independence of banks organizationally, he said: Interference of uninformed individuals in monetary and banking matters has caused some problems in the banking system, while only the director of the bank is responsible for responding to these problems.

The managing director of Sepah Bank mentioned lack of understanding and sufficient information about Islamic contracts on the part of bank personnel and applicants for funds as well as unhealthy competition among the banks among the implemental problems of the interest-free banking operations law.

Emphasizing that bank personnel must not ignore the implementation of religious laws and the interest-free banking law in order to please the director or managing director of the bank, Kazemi-Namin said:

I have frequently told bank personnel that I do not want them to collect interest in order to please me, and this is one of the factors that unfortunately exists throughout the banks.

*'Ali Reza Khatib, Commerical Bank Managing Director

95LA0007I Tehran RESALAT in Persian 12 Sep 94 p 15

[Interview with 'Ali Reza Khatib, Managing Director, Commercial Bank, by RESALAT; place and date not given]

[FBIS Translated Text] Economic Division. Interest-free banking does not mean Islamic banking, because Islamic banking has many dimensions and goes beyond this law. Islamic banking can be implemented in a society in its final form when the economy of that society is also Islamic. Interest-free banking can be considered Islamic banking when the people, too, can easily accept the law and follow the banking laws.

'Ali Reza Khatib, the managing director of the Commercial Bank, in an exclusive interview with the economic correspondent of RESALAT, referred to these issues and, in response to the question, "To what extent does the interest-free banking law conform to the spirit of Islamic economy?" said: The interest-free banking law is a prelude to entering Islamic economy and in a sense is a part of the Islamic economy that was implemented in our country at a particular time all at once in the banking system.

Such an event has not occurred anywhere else in the world, to suddenly eliminate the usury law and have the interest-free banking law govern.

He emphasized: The interest-free banking operations law conforms fully to the spirit of Islamic economy, and the ratification of the Majles and the approval of the Council of Guardians also prove it.

Then he mentioned one of the reasons for people's reluctance to implement the interest-free banking laws as the supervisory procedures of the banks and said: The issue of supervision in interest-free banking is part of the principles of the law. In other words, if supervision is eliminated from interest-free banking, the old situation will be created. Hence, the issue of supervision is very important. But, because one side of the issue must be fulfilled by the applicants, and so far this has not been done seriously, the unilateral implementation of this issue by the bank will not succeed.

The managing director of the Commercial Bank mentioned another weak point in banking as the unhealthy competition between the banks and said: When one bank wants seriously and precisely to implement the interest-free banking law, another bank that pays less attention to these issues will better attract the customers. Hence, the customers show more inclination to go to any bank that has weaker supervision and pays less attention to the principles of this law, and this causes the creation of unhealthy competition between the banks.

In response to the question of whether reaching high numbers, figures, and profit and attracting more customers is a sign of the success of the branches and the banks, he said: No, that is not so. The bank branches must try to make the quality of the operations 100 percent Islamic, even if they suffer losses, and for the losses the government must give subsidies, because this is the only solution to this problem. In other words, for the banks, the desirable quality of the work should be important, not the quantity.

In regards to the issue of, "With the implementation of the interest-free banking law, to what extent can we respond to the needs of the society in today's complex financial world?" Khatib added: Interest-free banking in

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Iran has been recognized as Islamic banking, and in Islamic countries, it is known as partnership banking. In other words, they make the depositors more of a partner in their transactions, which has caused interest-free banking to be more successful than the present conventional capitalist banks, because the bank divides its profits and losses among the depositors, whereas this does not exist in Western banking.

In response to the question, "Do the large numbers of Islamic contracts not add to the bureaucratic complexities and relations and thereby increase social expenditures?" he said: The large number of contracts, in addition to creating complexity has also increased expenditures; however, the operations of the banking system indicate that no more than three contracts are used.

Therefore, the number of contracts must decrease or a number of contracts be determined for specialized or commercial banks. At the present time, 70 percent of all of these contracts are comprised of civil partnership and installment sale contracts.

In response to the question, "At the present time, in order to receive funds from the banking network, there is weighty bureaucracy, such as bookkeeping, signing numerous contracts, finding guarantors, lengthy evaluation of projects by experts, and putting up exorbitant collateral, do such instances conform to the spirit of Islamic laws?" Khatib said: The banks are obliged to receive sufficient guarantees vis-a-vis the money that they give to the people, because they are the trustees of the people and have guaranteed the principle of their money and must repay it to the people. Hence, they are strict in getting guarantors and these guarantees must be easy to sell.

He said: Because the value of property as collateral goes up every day and it is easy to sell, the banks are more inclined to accept this kind of collateral. But in the Commercial Bank, considering the studies that were conducted, it was decided to omit some property collateral in granting loans. But this decision at the present time is implemented in loans granted to bank employees. However, with the negotiations that have been done with Iran Insurance [Company], an agreement was made to have Iran Insurance guarantee the payment of loans; hence, in the future, we will insure housing loans, guarantees, and other banking funds.

In regards to the increased revitalization of interest-free loan transactions, he said: In order to revitalize this tradition, the bank has two duties: One is to collect interest-free loan [deposits] from the people, and the second is to distribute interest-free loans among those who need them. In order to collect interest-free loan [deposits], considering the advertisement that was done, problems occurred, and some believe that the advertisement that the banks do to collect interest-free loan deposits makes the people inclined towards consumerism, and the spiritual value of interest-free loans also becomes questionable. On the other hand, spiritual advertisement is not sufficient to attract interest-free loan [deposits] from the people, and in order to solve this problem, a combination of the two must be done.

*RESALAT Interviews Fifth Islamic Banking Seminar Attendees

*Mohammad Khan, Minister of Economic Affairs, Finance

95LA0008A Tehran RESALAT in Persian 5, Sep 94 pp 5, 16

[FBIS Translated Text] **Economic Division. The fifth Islamic banking seminar began this morning with the speech of the minister of economic affairs and finance and the director general of the Central Bank.**

According to a report by the RESALAT economic correspondent, Mr. Mohammad Khan, the minister of economic affairs and finance, said in the beginning of this seminar: Considering the deficiencies and issues that many of the gentlemen may have [in mind], I will speak of one of the occasions on which I was with the grand leader. In one of the trips, a Friday imam said to the grand leader: How is it in the banks that usury is suspected of being practiced? The grand leader responded: Under the circumstances, with the interest-free banking operation law having been approved by the honorable Council of Guardians, to which six just and learned religious jurists were appointed by the late Imam, it is a religious obligation for all of us. Hence, no doubt about the banking operations is permissible.

Referring to the policies governing the Second Plan by the Central Bank, he asked for ease in obtaining banking guarantees and said: The banks must avoid unnecessary restrictions in granting funds and obtaining inappropriate guarantees and instead make use of insurance for the repayment of debts.

In conclusion, he asked for constructive criticism in reforming the banking system.

The same report indicates, Dr. 'Adeli, the director general of the Central Bank, said: Within the past five years, the total deposits of the people increased from 12,000 billion rials [R] to R42,000 billion, which shows an increase of 3.6 times. This increase in various kinds of deposits is 2.5 percent and in five-year deposits, 4.2 times.

He said: Five years ago, 33 percent of the cash was in the hands of the people, which was kept in their pockets or at home. This amount at the present has decreased to 12 percent in Khordad [22 May-21 June] and Tir [22 June-22 July] of this year, which shows the people's trust in the banking system.

He pointed out: The level of payment of loans in the banking network increased from R7,000 billion to R31,000 billion, and in the past five years, R52,000 billion were paid in loans.

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He added: The level of granted funds in the agricultural sector compared to the start of the plan increased by 240 percent; in construction, 238 percent; in services, 230 percent; and in industries and mines, 600 percent.

He pointed out: The ratio of loans compared to banking deposits has increased from 60 percent in 1368 [21 March 1989-20 March 1990] to 75 percent at the present.

In other words, at the present time, 75 percent of the deposits is paid as loans, and 21 percent is kept in the Central Bank as legal deposits, and the banking system is operating with 4 percent of the cash flow in circulation.

In continuation, referring to some of the issues raised in the area of profits and usury, Dr. 'Adeli said: Some in their statements say that if banking is with low profit, it is not usury, and if it is with high profit it is usury, and in their own minds they count the banking profit share as interest expenditures and say that if profits increase in the banking system, investments will increase, and the cost of production will increase. Worse still, they say that people will no longer invest and will not put their money in the banks. In response, it must be said that there is a major difference between profit and interest. Profit is, in fact, the share of profit of partnership and is not in addition to the loaned property. Rather, it is the share of the bank's partnership and in fact is not considered the interest expenditure. Some might say interest and profit are very similar in appearance, but in fact that is not so.

Continuing, pointing out that in interest-free banking, the best allocation of resources must exist, he said: The best allocation of resources is not contradictory to the interest-free banking system, and if we increase the share of the profit of depositors, it will result in the protection of resources and their use in highly economic feasible projects. This will prevent the waste of resources and cause increased production.

He pointed out: Within the next few days, one of our banks will be active in publishing partnership papers, and this is a new endeavor after 10 years.

At the same time, we are trying to create the secondary market for the five-year investment deposit papers, in which case the depositor will be able to cash his money whenever he wants.

In response to the legitimacy of this issue, he asked the religious jurists to give their opinion.

***Hojjat ol-Eslam Mesbahi**

95LA0008B Tehran RESALAT in Persian 7 Sep 94 p 15

[FBIS Translated Text] Economic Division. The interest-free banking system must in actuality and practice take religious laws into consideration and act accordingly.

According to the economic correspondent of RESALAT, Hojjat ol-Eslam Gholamreza Mesbahi, the deputy director of the Office of Cooperation between the seminary and the universities, made this announcement yesterday in the fifth Islamic Banking Seminar and said: There are no problems in terms of religious jurisprudence in the interest-free banking operations law, but in regards to the operations in the area of installment transactions, the forging of receipts is the essential problem in the legitimacy of bank profit.

He also added: In regards to various kinds of partnerships, since it is not possible to determine the profit ahead of time, determining the final profit ahead of time has caused problems.

Hojjat ol-Eslam Mesbahi mentioned the increase in inflation in ratio to the interest received due to banking operations and the exit of capital from the production and services sectors and their absorption in the banks as among the effects of the operations of the banking system.

In continuation, he pointed out: Based on a study conducted, more than 60 percent of people do not see a difference between interest-free and for-interest banking.

The deputy director of the Office of Cooperation between the seminary and universities in continuation emphasized: In response to some saying that Islamic banking will not be successful, we must question, did we implement the Islamic banking system to claim that it is not successful?

According to the report of our correspondent, at the end of the Islamic banking seminar, Dr. 'Adeli, the director general of the Central Bank; Dr. Sheybani, the economic deputy director of the Central Bank; and some of the speakers responded to various questions. In response to a question about national economic growth, Dr. 'Adeli said: The gross domestic product of the country in 1367 [21 March 1988-20 March 1989] was R8,700 billion, which increased by about R13,000 billion in 1372 [21 March 1993-20 March 1994]. In other words, every year we have had 7.3-percent growth, the main reason for which is the increase in the production of factories.

He emphasized: At the present time, we do not have the capacity to create 7.3 [percent] economic growth annually at fixed prices, because neither will our resources allow it nor can we tolerate inflation.

Dr. Mohammad 'Ali Qotmiri, a member of the faculty of Shiraz University, in response to a question said: If we want to have constant economic growth, we must create new capacities.

Also, in regards to the floating rate of foreign currency, he said: The use of the term floating rate of foreign currency theoretically, when there is no demand for foreign currency in the international market, is problematic, and we must follow the policy of stabilizing the foreign currency rate.

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Dr. Sheybani, the economic deputy director of the Central Bank, also said: If we want to take the rate of growth as a constant, this growth must be between 5 to 6 percent, and the capacities for achieving this growth are provided.

He also added: In the first four months of this year, 3 percent of growth of cash flow has been created in the society.

Valiollah Seyf, the managing director of the Saderat Bank, in response to a question concerning the reason for using the obtained funds in other areas than requested, said: The main reason for this is the difference in the rate of service charges, and because the rate of service charges for banking funds is low for agriculture and high for trade, naturally since there is an inclination toward the trade sector, making the rates of service charges equal can prevent this problem.

In response to a question that if we become a member of GATT, foreign banks must also be given permission to operate, Dr. 'Adeli said: At the present time, foreign banks are not permitted to open branches but can have representatives. If the private sector banking law is ratified, foreign or mixed banks may also be established.

He emphasized: If given permission to operate, foreign banks must also follow the interest-free banking law, and every banking operation in the country will be allowed only within the framework of the interest-free banking operations law.

In response to this question, "Even though an increase in the profit of banking deposits helps the vulnerable strata, will it not have a negative effect on our broader policies. Considering that in the broader economy, when the government wants to decrease inflation, it raises the rates of the profit, Dr. Purian said:

Making the profits reasonable will not only help our vulnerable strata and our ordinary people who have made deposits in the banks, but the ratio of economic growth is directly related to the actual rates of interest.

Also, concerning "whether or not in Islamic banking inflation can exist," Dr. Tutunchian added: In Islamic banking and the Islamic system, inflation may be absent and the reason is that we do not have a monetary market in the Islamic system because of the absence of interest. When this capital is converted into production, it will have no negative inflationary effect.

He emphasized: The only reason for inflation is the existence of for-interest banking, which is due to the creation of money, and interest is regarded as the cost. If the coefficient of technology goes above one and there is no monetary market, inflation will disappear.

Also, concerning the importance of the independence of the Central Bank to implement the monetary policies, Dr. 'Adeli said: As long as the Central Bank is not independent, we cannot talk about the positive effects of the monetary policies on the economy, and we shall always be in a constant conflict with the financial policy and the policies of the economic sector, which are the consequences of this monetary conflict.

In response to this question, "How many foreign requests have been made so far to establish nonbanking credit establishments in Iran?" the director general of the Central Bank said: At the present time, we have received no foreign requests, and we are not trying to establish nonbanking foreign credit establishments in Iran. But the requests have been made domestically to establish such establishments, which we are studying.

In regards to accepting shares as collateral in the banks, Dr. 'Adeli said: According to the ratification of the Monetary and Credit Council, every bank may accept any collateral that it considers easy to sell and valid, and since some time ago, with the reactivation of the stock market, recommendations were given to banks to accept shares as collateral.

*Taqi Tarabi on Central Bank, Independence, Policies

95LA0005A Tehran RESALAT in Persian 31 Aug, 1 Sep 94

[31 Aug p 5, 15]

[FBIS Translated Text] Economics Division. For some time the nation's intellectuals have been preoccupied with the subject of the Central Bank's independence. Can independence for this monetary body help the country achieve its high goals? Is Central Bank independence possible in countries like Iran? These are some of the questions the nation's economic researchers are seeking to answer. The article to follow discusses the nation's monetary and financial policies and the problems that exist for the Central Bank's independence. It is hoped that this will be helpful to economic researchers and scholars and assist them in finding suitable economic policies.

In the developing nations, independence for the Central Bank means completely separating the Central Bank from the body of the government, and for various reasons this could entail dangers. It is necessary to note that the aforementioned article reflects various points of view on the Central Bank's independence, and that RESALAT is prepared to print articles of this type.

Overall economic policies may be seen as the efforts by decisionmaking officials to attain specific goals for the variables in the general economy. Here the question arises as to what procedures are available to government officials to make them able to create these changes. It may be said that in general we are dealing with two kinds of variables. First are variable goals, meaning variables whose elevation to a special level is desirable and satisfactory in terms of increasing national welfare. Second is variable implements, meaning variables through which officials can get control of the economic system by

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changing them. The essence and divisions between these implements have a precise relationship with the relationship between tools and goals.

Here it is necessary to discuss briefly the variables in the primary tools and the variables in the intermediary tools. The variables in the primary tools are those that the officials can change directly. An example is changing tax rates in the framework of monetary policies, which will bring about changes in tax revenues, and, in the area of monetary policy, changing the legal requirements for reserves banks must keep with the Central Bank, which will bring about changes in the money supply. Here the tax rate and the legal reserve requirement are variables in the primary tools, while tax revenues and the money supply are variables in the intermediate tools that they have presumably chosen for goals such as increasing employment or decreasing inflation.

Since the relationship between various kinds of variables is not that clear, naturally the task of the policymaker will also not be that simple. Moreover, it is possible that any one of the intermediate tool variables could change through the application of the primary tool variables. A change in the money supply could occur as the result of the government's budget (monetary) policy, or an increase in the government's revenues as an intermediate tool variable could also be achieved through the implementation of a monetary policy (changing the foreign exchange rate).

In economics, economic policy has necessarily been classified according to special groups, and this classification is usually done according to the responsibility of economic factors. The problem is that there will be difficulties if common facets develop among these responsibilities.

Moreover, even ignoring the issue of responsibility, it is also possible that tools will not be independent from each other. A measure taken in the framework of monetary policies could be accompanied by problems for monetary policies, so that the use of one policy might make it dependent on another policy, or it could even essentially change it to another policy.

According to the common understanding of this situation, changes in the money supply affect the profit rate on credit means and the banking system's control of general lending affairs in the framework of monetary policies, and bring about changes in the composition and timing of the government's revenues from taxes and expenditures related to them in the domain of financial policy. Another policy is evident between these two and that is debt management policy, because the government turning to the Central Bank to make up for its budget deficit is a financial policy on the one hand. On the other hand, because this process of turning to the Central Bank leads to an increase in the money supply, it will create repercussions in monetary policy. Other policies such as money supply policies will have repercussions in monetary policy. There are other policies such as income policy, price policy and balance of payments policy that introduce another kind of government intervention in society's economic affairs.

In summary it may be said that:

First, general policies aimed at affecting target variables in a society are not limited to monetary and financial policies, and other policies may also be introduced.

Second, one may not speak regarding any of the general economic policies in terms of an overall and standardized concept with specific boundaries and borders. It is not even permissible to assign a specific target or level of efficiency to these kinds of policies. The effectiveness of any one general economic policy tool depends on the structure of the economy and economic cycles. It has to do with the nation's special economic conditions and its coordination with other economic policies. Therefore, one may not speak of a single special formula for determining the effectiveness of these policies.

We said that in any society the job of applying these policies is assigned to special decisionmaking officials in accordance with the law of the expedience of dividing labor and responsibility. Moreover, it is possible that reaching the desired target variable figures (for example reducing the budget deficit) merely requires making a change in a special intermediate tool variable (increasing tax revenues), but changing this intermediate tool variable could also bring about a change in a primary tool variable (such as increasing the tax rate) and also a change in another primary tool variable, and it is here that problems arise because of the common facets among the tools and also the common facets among the responsibilities. For this reason, in the management of affairs an effort has been made to assign the policies of the first type to monetary officials (mostly the Central Bank) and the latter policies to government officials, based on classic concepts of monetary and financial policy.

Of course, the Central Bank's prerogatives and degree of independence depend on its legal essence, and this differs in every system. In America and Germany for example, the independence of the central banks is clearly emphasized in the law, and therefore, based on the prerogatives that have been given to these banks, the banks can easily resist the ministry of finance (the government) in any way they deem necessary, while in the Belgian model, the Central Bank is not this independent. In reality this dimension of independence is mostly given to the Central Bank's organizational dimension.

Another dimension of independence may take the form that the Central Bank is not entirely separate from the government, with its chief often appointed by the minister of finance. However, since its duties have been clearly specified, it can be seen as an independent body in the sense that the government must not obstruct implementation of the Central Bank's monetary policies with financial or other economic policies. It is clear that

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in this situation the preparation of the necessary mechanisms for determining this independence are not that easy, and at any moment the government could persuade the Central Bank to follow it in various ways, such as by emphasizing special conditions.

In addition, the government's relationship with the Central Bank will vary depending on whether the chiefs of the Central Bank are chosen from among Ministry of Finance officials or officials from the bank itself. That is, sometimes its independence is greater, and sometimes its dependence on the government is greater. It is clear that the intellectual points of view arising from these two kinds of appointments will be different. In the first case, the issue is the development of economic activities (expansion policies), while in the second case, the stated goal will probably be to protect the value of money and to fight inflation (contraction policies).

What is clear in developing nations is that independence for the Central Bank of the first type means completely separating the Central Bank from the body of the government, and for various reasons this could entail potential dangers, because first of all in these countries growth and development are the most important goals, and second, due to the improper formation of laws, the lack of proper regulations for decision making, the lack of the necessary specializations for determining economic interest, and sometimes confusion and politicized decision making, the Central Bank's monetary policies and the government's financial policies may be in conflict with one another, and at sensitive times the necessary cooperation and coordination, which is a requirement for the society's survival and continued political and economic life, may not even take place.

Second, the first kind of independence, demands that special prior structural requirements be met in the nation's other economic and social dimensions that are rarely seen in developing nations. Of course, this does not mean that in the developing nations the Central Bank obeys the government. Rather, in general this means that in these kinds of countries the Central Bank, with special and defined duties and a wide domain of legal prerogatives, must be able to fulfill its mission both in the area of the monetary and banking system and also as one of the effective tools for assisting economic growth.

A major area that can be seen as an indicator of independence in the latter sense is the degree of the Central Bank's power and authority to accept or reject the government's proposals for the use of its resources. This requires that the Central Bank set a policy for regulating the resources requested by the government sector, just as it must have executive guarantees for what it promises to the private sector.

With regard to our country, it appears that the following factors affect the independence of the Central Bank:

- In terms of the organizational and legal foundations, the Central Bank, as the head of the monetary and banking system, is considered one of the government's extensions. Not only the Central Bank, but also all the commercial and specialist banks, are national, and the government's absolute authority over them is clear.
- The appointment of the chief of the Central Bank is done by the government (the minister of economic and financial affairs), and in addition certain members of the Council of Ministers usually determine the membership of key Central Bank structures (the bank's general assembly, the Supreme Council of Banks, the Money and Credit Council and others).
- Although the Central Bank has been recognized as the executor of monetary and credit policies, both its credit policy and its other involvement and supervision of monetary and banking affairs are done based on measures enacted by the Council of Ministers or the Money and Credit Council (Articles 19 and 20 of the Usury-Free Banking Operations Law).

There is, therefore, no doubt that these kinds of legal and organizational foundations impose their special limitations on the Central Bank's independence, and can cause problems for the Central Bank in realizing the goal of protecting the value of money and the balance of payments.

For example, a majority of the members of the Money and Credit Council is made up of members of the Council of Ministers or their deputies and representatives. It is clear that for the nation's ministries and executive organizations, the procurement of financial resources through the banking system is more important than the pursuit of goals such as controlling inflation and other things. In other words, this group's decisions are aimed more at defending the ministries to which they belong and less at overall economic considerations. At the same time, this makes the Central Bank and the banking system incapable of implementing monetary policies, and also unwittingly undermines its independence.

Another point is that because many of the decisions made in the Central Bank go through many lengthy phases, such as through the Money and Credit Council, the Bank's general assembly and the Council of Ministers, this creates problems for monetary policies and their effectiveness.

Another point worthy of reflection is that the banks in an Islamic banking system, because they abstain from usury, are in some cases obliged to get directly involved in economic activities, and, unwittingly, this detains them from fulfilling their essential banking role, because the necessity to coordinate the banks with the new banking system activities in the area of joint direct investment projects and the supervision of their implementation and the exercise of direct management in some units under their organizational control takes a significant volume of financial, physical, and human

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resources. Naturally, in reducing the aforementioned resources in the area of banking resources, the banking system's efficiency is undermined.

In practice also, a study of the historic relationship between the Central Bank and the government shows that in the past the Central Bank did not even have a small amount of regulation that would give it the real authority to act. Up until the beginning of the First Five-Year Plan, government requests to the Central Bank for the use of its resources continually increased, and the Central Bank had no choice but to procure the resources needed by the government in order to coordinate with it. Thus, since monetary policies were subject to the government's financial policies, they could not have the necessary efficiency, and the bank's independence of action to implement monetary policies was gradually reduced.

In other words, since much of the government credits were used outside the control and prerogatives of this bank, in effect the monetary planning system was out of the hands of the monetary officials, and every year there were factors that undercut the prerogatives of the Central Bank and brought with it greater losses than ever to the nation's banks. These factors included special laws on the use of the resources of the Central Bank and the banking system, the failure by most government companies to fulfill their heavy financial commitments, requiring the banks to give low-cost and usually long-term banking means in some areas and to some regions, bodies or government companies, requiring the banks to buy government loan papers at low profit, and other such things.

Fortunately, during the years of the First Five-Year Plan these factors were sharply reduced, and consequently the necessity for the nation's banking system to follow the government, apart from the legal considerations that are still in place, has been reduced. During the years of the Five-Year Plan, with measures such as revision of profit rates on banking means—these rates have remained fixed since the year 1362 [21 March 1983-20 March 1984]—diversifying bank deposits and revising the rates on their profits, eliminating credit ceilings, and, most important of all, the government's policy not to borrow from the Central Bank (balanced budget), brought significant successes not only in terms of economic considerations, but also in terms of solving bank problems, increasing their profitability, and in addition in increasing the banks' freedom of action.

Unfortunately it appears that in these conditions, which have made the Central Bank more independent than before, the Central Bank, in adopting sharply expansionist policies, has made it difficult to reach goals such as preserving the value of money and maintaining the balance of payments. The reason is that it appears that the Central Bank, in adopting its recent policies with regard to banking means given to economic sectors, the private sector, including ...eans granted to government companies and institutions and also its policies organizing the foreign exchange rate, has completely lost its coordination with the government's policies, including the policies of economic adjustment.

In this regard not only was it unsuccessful in applying contractive monetary policies, but it made it more difficult for the government to continue the policies of economic adjustment.

This is the same danger we mentioned at the beginning of the article. We noted that in reality the sense of cooperation and coordination is a requirement for the survival and continuation of society's economic life. Thus, the first type of independence, meaning full separation of the Central Bank from the government, may bring potential dangers.

[1 Sep p 15]

The Central Bank necessarily sought to achieve its independence by a route that deviates and differs from the government's policies, while this process would not bring a positive result even in the advanced nations where the Central Bank is completely separate from the government.

Despite having vast resources and prerogatives, the Central Bank's management has not succeeded in its core areas of responsibility, meaning controlling currency in circulation and inflation.

[FBIS Translated Text] Economics Division. Yesterday in the first part of the article entitled: "Monetary and Financial Policies and the Independence of the Central Bank," mention was made of general economic policies and their effectiveness on target variables in a society. In addition, it was explained that for general economic policies one may not speak regarding any of the general economic policies in terms of an overall and standardized concept with specific boundaries and borders.

With regard to the Central Bank's independence it was also said that in the developing nations this body's full independence may bring potential dangers due to the improper formation of laws and the lack of proper regulations for decision making. In the final installment of this article recommendations have also been made about increasing the Central Bank's efficiency, which appear below for our esteemed readers:

In countries such as our country (Iran), in view of the Central Bank's legal and organizational dimensions and its relationship with the government, the most important indication of the degree of the banking system's independence is the degree of the power of the Central Bank and the banking system to implement the government loan management policy. As was said, in the past the obligations the government imposed on the Central Bank in the area of obtaining loans and using banking system resources were excessive, and this very thing, while endangering the independence of the monetary and financial policies, reduced the efficiency of monetary policies.

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In recent years, although the severe dependence of the government's budget on banking system resources has been reduced, and this has consequently reduced the degree to which the nation's banking system follows the government, unfortunately it appears that despite the availability of vast resources and prerogatives, the management of the Central Bank has not been successful in its core areas of responsibility, meaning controlling currency in circulation and inflation. This in itself has created an obstacle to a great extent for other government policies, or it has seemingly reversed areas in which government policies have been successful.

For example, it is noted that in the four-year period between 1368 and 1371 [21 March 1989-20 March 1993], 20,180 billion rials [R] was added to the nation's total currency in circulation, of which R16,110 billion arose from the change in the private sector's net debt, R2,858 billion arose from the change in the net debt of government companies and institutions, and only R1,813 of that figure is government debt.

It is thus evident that only about 9.8 percent of the change in currency in circulation is caused by government debt (government financial policies), and about 80 percent of that change is means granted by banks to the private sector (monetary expansion policies). In addition, 14.4 percent is the net debt of government companies and institutions, and there was no kind of compulsion or imposition from the government requiring that these means be granted. In other words, at least 90 percent of the increase in currency in circulation is directly due to the Central Bank's failure to coordinate with other overall economic policies.

Another problem in this regard is improper inferences about monetary and financial policies, and giving priority to one over the other. As we know, the debate between supporters of the monetary school of thought and the financial school of thought is an old one, and discussing it again will not produce a new result. In this regard we also mentioned previously that the effectiveness of each one of the aforementioned policies depends on the economic cycles and the nation's special economic conditions, and therefore, there can be no rule about one policy having precedence over the other.

A fine point with regard to this, however, is the misconception that anytime there is talk of financial policy, it is probably an expansionist financial policy, and anytime there is talk of monetary policy, the idea of a contractive monetary comes to mind. This means that since most government, in the process of procuring financial resources, are inclined to implement expansionist financial policies and that the Central Bank, to preserve the value of money, is inclined towards contractive monetary policies. The supporters of each of these two policies are concerned solely with the aforementioned instances, yet governments may also apply contractive financial policies to achieve the same goals that interest monetary officials, and monetary officials may also bring about the economic growth and prosperity sought by the government by increasing expansionist monetary policies, of course while cooperating with the government's other policies.

It is logical for the government or anyone else who believes in financial policies to have this belief in both its dimensions and not insist exclusively on implementing expansionist financial policies, and that they should regularly use financial policies as a mechanism and as a necessary executive organizing tool to obtain sound revenues from society (revenues that do not have inflationary effects).

With regard to our country (Iran), in view of current circumstances where the resources for obtaining independence for the Central Bank are more available, the Central Bank itself does not make full use of the tools of monetary policy. In discussing this we do not mean to say that we believe only in the efficiency of these kinds of policies. Moreover, this does not mean that financial policies should not be used.

Rather, the point is that first of all contractive financial policies are also conceivable and second that the government's expansionist financial policies must not be such that they make it difficult and sometimes inefficient to apply monetary policies. Third, the Central Bank should consider both contractive and expansionist monetary policies, but belief in this point of view must not be a justification for monetary officials to undermine the results of the government's successes with an expansionist approach, in circumstances were all of the government's overall economic policies have been put into effect and when growth in production is being sought with minimum use of expansionist policies.

An example of this, apart from the expansionist monetary policies mentioned above, is the Central Bank's heavily expansionist foreign exchange policies practiced through the spread of credit purchases (usance) and increased foreign exchange commitments. This both damages the policies of economic adjustment, including the unification of the foreign exchange rate, and prevents the government from continuing on its path. It appears that unfortunately the Central Bank necessarily sought to achieve its independence by a route that deviates and differs from the government's policies, while this process would not bring a positive result even in the advanced nations where the Central Bank is completely separate from the government.

Thus, the degree of independence required for the continued life and survival of the monetary and banking system has become clear, and we have added that the banking system must have a clear and specific program for granting credit to the government, and as much as possible in organizing this program, it must not be pressured by the government. In this case monetary policies will appear across a broad spectrum and the efficiency of these kinds of policies will be higher.

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Naturally these policies, if they are not faced with government financial policies that undermine them, can have positive effects controlling inflation and aiding national growth.

Unfortunately, in the current circumstances the Central Bank, due to the lack of proper management, both in the area of controlling currency in circulation and in its foreign exchange policies, on the one hand has caused an excessive increase in currency in circulation and on the other hand has caused an increase in credit purchases, and consequently an increase in the nation's foreign exchange commitments. It is here that it appears that in societies such as our country, while it is necessary to have a powerful Central Bank in the academic and executive sense, it is also necessary to coordinate its policies with the government's overall policies.

*Hoseyn Abrandabadi Editorial on Current Banking Problems

95LA0004A Tehran RESALAT in Persian 5, 6, 7, 8, 10, 11, 12, 13, 14, 17 Sep 94

[5 Sep p 15]

[FBIS Translated Text] The new banking system, which was designed for the nation's banking operations during the years 1360-1363 [21 March 1981-20 March 1985], did not bring about a fundamental change in banking operations. Rather, it was only intended to create forms to eliminate usury and to eliminate negative instances. Since no fundamental change was made in traditional banking, for this reason, now that it has been 10 years since the new banking law was implemented, we are seeing a series of theoretical and practical difficulties. In this article we will initially enumerate some of the current theoretical and practical banking problems, and we will discuss some of the possible solutions.

A review of the remarks by the expert from the Special Commission To Form the Banking Without Interest Law, delivered before the Majles and printed in the official newspaper of the time, will illustrate the way of dealing with the traditional banking system and the changes made. Mr. Mohammad Khaza'i, commission expert, said:

Initially, with regard to eliminating usury from the banking system, the question was asked whether we should close all the banks and establish a new system for banking operations, or whether we should make studies and then remove the negative points and replace them with positive points. We concluded that we should analyze the banking system and really remove the parts that are forbidden and contrary to religious law, and calmly, God willing, convert this system to an Islamic system. In the long term, God willing, we could also transform the remaining parts that are not in conflict with religious law but do not conform to a revolutionary Islamic system, and make them Islamic, so to speak. We began the study with the point of view that we would initially eliminate interest."

Here we will briefly mention 12 current theoretical banking problems:

A) Theoretical Problems

1. In the Islamic economy, there is a difference between money and capital. Money is the value of the pure exchange of goods and the general power to purchase. It serves as a medium of exchange, a criterion for determining value and a means of storing value. On the other hand, money is a credit asset while capital is a true asset and one of the elements of production. Money brings no return but capital brings a return, and profit is attached to capital.

In current banking there is profit attached to monetary deposits, even if some of them do not go into the investment cycle and are not converted to capital through the granting of banking means. There are always some short-term capital deposits that do not find their way into the investment cycle, but there is a specific profit attached to all monetary deposits made in the banks as long-term or short-term capital. The justification for that is the concept of shared investment and shared profit. Yet the real issue is commonly held money, and investment profits cannot be paid on funds that have not entered the production cycle. That is not shared profit. This brings about something resembling usury in current banking operations, and can make banking operations usurious.

2. In the Islamic economy profit is an internal variable. In other words, in the production cycle it is obtained from the difference between revenues and costs. Therefore, it is determined at the end of the investment cycle and after the sale of the product. Thus one may not determine profit in advance. Yet in current banking, in numerous instances the profit rate is in practice an external and administrative variable, because

First: The rate on fixed-term banking means is determined before the means are granted.

Second: At the beginning of each year the Money and Credit Council makes decisions on the minimum profit rate expected on various types of banking means and it determines the rate based on an estimate. The banks also act on the basis of that decision and they make that rate the basis of their calculations.

Each of the commercial banks in the country makes an aggregate profit that is different from other banks. Profits even differ among banks in different provinces. On the other hand, each branch earns a different profit from that of a bank's other branches. In addition to that, the profitability of an industrial activity differs from one province to the next. In view of the fact that these differences are clear, how can a uniform minimum profit be determined? Often a single activity will have several different rates, and even less than the designated minimum profit. These differences, which arise from the essential nature of economic activities, show that in

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practice one may not determine a uniform rate, even as a minimum profit rate, and make that the basis of calculations.

Stipulating profit causes it to be an external and predetermined variable, and this is precisely the role of the profit rate in many overall economic analyses. When it changes that affects other economic activities. A precise indication of the superficial and administrative nature of rates on banking means is the program to establish a special profit at a rate of 25 percent per year, which has been implemented. The justification given by banking insiders was that this profitability is possible through economizing on bank costs and that these deposits are impounded, meaning that they do not go into economic activity. In this case the administrative and predetermined profit rates on banking means is perfectly demonstrated, because these deposits are profitable despite being impounded.

On the other hand, the minimum rate expected for banking means was stable in the years 1363-1368 [21 March 1984 - 20 March 1990], in such a way that during those years it was 6-8 percent in the industries and mining sector, 8-12 percent in the housing and construction sector, 4-8 percent in the agricultural sector, 8-12 percent in the commercial and services sector, and 8-12 percent in the export sector.

Just as is evident, the profit rate for banks is an external and administrative variable, and it resembles a designated profit rate.

[6 Sep 15]

[FBIS Translated Text]

Economics Division. Yesterday in the first installment of the article "Critique and Study of Current Banking Problems in Iran," two theoretical banking problems were studied. It was explained that the failure to make a distinction between money and capital and the external nature of profit rates are two problems with current banking. We will follow together the continued discussion below concerning other theoretical problems in the banking system.

3. Current banking operations have been so organized that they include a guaranteed profit for the bank and a guaranteed profit on depositor accounts. The designation of a minimum expected profit rate also means that the one requesting banking means must make a profit at a level such that the bank's share is not less than the minimum designated profit. If it is effectively less, the bank will not accept it. The bank says that the bank, as the trustee for depositors cannot accept a loss, and that if it accepts losing operations, the bank would gradually go bankrupt.

In view of the fact that economic activities, especially partnerships, have the two sides of profit and loss and that banking without usury is necessarily based on sharing profits and losses, taking half and leaving the other half is not part of the concept of partnership and sound economic activity. This has brought a theoretical problem in current banking operations, in that if it accepts losses, the bank will gradually go bankrupt and betray its trusteeship, and if it does not accept losses, the real concept of partnership in profits and losses is removed. We have turned to guaranteed profits and payment on accounts, which has created something resembling usury in banking operations.

4. In the new banking, one of the most important tools of monetary policy is designating the minimum profit expected by the bank in various economic sectors. These rates create an indicator for the bank on the basis of which it eliminates all projects whose profits are less than the designated minimum profit. Thus finances are procured only for those projects whose profitability is equal to or greater than the designated minimum profit, and finances are not procured for other projects.

A problem that is created is that the determination of a minimum profit rate undermines the allocation of resources to priority sectors with profit rates that are lower than the minimum profit expected by the bank. For example, it is possible that the agricultural sector may have priority, but the minimum profit expected by the bank may be such that the farmer may be effectively unable to make use of banking means. What are farmers to do in this case? This is particularly difficult for them because agriculture, orchard keeping and even animal husbandry are extremely subject to climactic conditions, which cannot be accurately predicted. It is for this reason that agricultural sector activities are hazardous. In this case, what will the nation's economic priorities be?

Likewise, the designation of a minimum profit rate will mean that a series of useful and generally beneficial projects that are less profitable than the designated minimum profit will be neglected and scattered funds will not be able to procure their financial needs. In that case, what will the status of these projects be? If the bank does not consider itself responsible for projects of this kind, who will take care of these kinds of neglected projects? Is there no activity in banking without usury that has the goals of increasing investment, economic growth and increasing the public welfare? If that is true, is adopting this procedure compatible with the goals of the new banking which were mentioned in the beginning of the law?

5. The conflict between direct bank investment and intermediary activity: In "banking literature" the bank is a financial and intermediary institution whose job is to mobilize and allocate resources. It thus plays the role of intermediary in financial affairs. In that case, the bank cannot be the active party. If the bank is the active partner, it is no longer a bank, but rather an acting company for investment and partnership. In current banking, the direct investment mentioned in the law effectively makes an acting company out of the bank.

Although to make direct investments the banks have established investment companies, in addition to the

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fact that doing this is in conflict with the government's general policy to prevent the formation of new companies affiliated with the government, it also converts the bank from intermediary to active party, which is inconsistent with being a bank.

Of course, if the matter is studied from a practical point of view, there are numerous instances of direct bank investments showing losses, because the philosophy of being of a bank is not being an active party, but rather being an intermediary. Right now direct investment makes up about one percent of the activities of the commercial banks. This confirms the fact that since the task of a bank is not to be an active party, in practice also it can spend only small amounts of bank resources on this kind of work.

[7 Sep p 15]

[FBIS Translated Text]

Economics Division. So far five theoretical problems in the banking system have been analyzed in the article "Critique and Study of Current Banking Problems in Iran." Below we will read together about two other theoretical problems in this system.

6. The two contracts, leasing farms and leasing farms in return for part of the crop, as provided in the law, have no precedent in the means granted by the banks, because in leases and leases for produce, the bank must itself have an orchard or a cultivated field in order to be able to sign a contract with the tiller, the irrigator and the farmer, and after obtaining the produce, to distribute it among them based on the contract. In this case, first the application of these two types of contracts is limited to cases where the bank itself has a field and an orchard, and in practice this includes only a small number of instances, unless the bank buys a large farm, and that contradicts the principle of banking.

Second: This gets the bank involved in activities that are in contradiction with the role of intermediary, in view of the fact that in Shiite theology leasing and leasing for produce have special usable foundations, and there are rules for applying them in terms of the sacred shari'at. Therefore the failure to make use of them is one of the theoretical problems of current banking.

7. In the usurious economy the two terms "nominal profit" and "real profit" exits. The real rate of profit is the nominal profit rate minus the rate of inflation. In the contemporary usurious economy they try to make the nominal profit more than the rate of inflation so that in addition to recovering the loss in the value of money caused by inflation, they can also give depositors something as a profit.

In the nation's current banking, one of the existing reasons for raising the profit rate on deposits is the aforementioned consideration, in the sense that since the value of the money of individuals is reduced by inflation, the profit rate on deposits must be raised enough that it will be logical, so to speak. This term was even used plainly in the Second Five-Year Plan, and the objective of that increase in the profit rate on deposits was to get close to the real profit rate.

[8 Sep pp 19, 6]

[FBIS Translated Text]

Economics Division. Yesterday in the third installment of the the article "Critique and Study of Current Banking Problems in Iran," contracts for leasing land, leasing land for produce and the rates for nominal and real profits in the nation's current banking were discussed. As this article continues below, a number of other theoretical problems with Iran's current banking problems are presented for our esteemed readers.

In the period 1363 through 1368 the profit rate on deposits was effectively fixed, but after the year 1369 [21 March 1990-20 March 1991], on the grounds that due to inflation the real profit rate paid to depositors was negative, the profit rate on banking system deposits increased.

Likewise, fixed-term capital deposits were created for one year, two years, three years, and five years. The following table shows the increases in profit rates on banking deposits from 1369 through 1372 [21 March 1990-20 March 1994].

Table 1: Profit Rate on Banking System Deposits(1369-1372)
Unit: Percent

Year	Short Term	One Year	Two Year	Three Year	Five Year
1369	6.5	9.0	10.0	11.0	13.0
1370	6.5	9.0	10.5	11.5	14.0
1371	7.5	10.0	11.5	13.0	15.0
1372	8.0	11.5	13.5	14.5	16.0

Source: Central Bank of the Islamic Republic of Iran

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On the other hand, in recent years the inflation rate has been on the increase. Table 2 Illustrates this.

Table 2: Rate of Increase in Retail Price Indicator
Unit: Percent

Year	Inflation Rate
1369	9.0
1370	19.6
1371	21.6
1372	24.0

Source: Central Bank of the Islamic Republic of Iran

8. Creation of Inflationary Stagnation

The applicant for banking means who goes to the bank to procure the financial resources for his investment project considers the cost of procuring capital when calculating his profit and loss. In current banking the costs of obtaining official documents, other administrative costs and buying denominated financial instruments are included in addition to the minimum expected profit rate. All these costs are calculated as part of the cost of production, and when they are added the cost of production goes up. In recent years, the expected profit rate for banking means has increased. This is one of the important factors in the creation of inflation arising from price pressure.

On the other hand, in view of the fact that the profit rate on banking deposits follows the profit rate on banking means granted, with increases in the expected profit rate on banking means, we have also seen increases in the profit rates on banking deposits, such that in the year 1369 the profit rates on short-term, one-year, two-year, three-year and five-year deposits were respectively: 6.5, 9.0, 10.0, 11.0, and 13.0 percent, and in the year 1372 [21 March 1993-20 March 1994] they were, 8, 11.5, 13.5, 14.5, and 16 percent, respectively.

Therefore, on the one hand the costs of investment increased and on the other hand, with the increase in the profit rate on deposits greater sums were returned to depositors, which added to the volume of currency in circulation available to those with the funds to demand goods or to make deposits in larger amounts. This is one of the inflationary factors with a monetary source. Therefore, current banking operations have been inflationary in two respects.

On the other hand, with the increase in the profit rate for banking means, stagnation was created in economic activities, because with the finished cost, the producer cannot sell his goods and this has meant that there have been fewer applications to banks to obtain additional financial resources. The free resources of banks, which have increased each year, are the best evidence of this claim.

In recent years in the housing sector, housing construction using banking means has sharply decreased, because housing builders do not consider it economical. This could be a factor in the existence of inflation in the economy. Of course, population growth and the problems of individuals can increase the number of applicants for means, but a look at the general course of economic activities shows clearly that current banking is one of the factors in creating inflationary stagnation in the country during recent years.

9. Based on the Banks Nationalization Law, all the nation's banks were declared nationalized as of the year 1358 [21 March 1979-20 March 1980]. On this basis, since that time banks have continued to operate as a national institution, and the government supervises them as the nation's representative through the Central Bank and the management of the national banks. The resources of the nationalized banks belong to the people and have private ownership. Investments of banks that formerly were government banks are owned by the government, private ownership and public (national) ownership.

In current banking, which is based on the elimination of usury, government companies may take usurious loans from the banks and the reasoning is that both of them are government entities, though the banks have been nationalized and are publicly owned, while the government companies are owned by the government. This is thus not taking money out of one government pocket and putting it into another. These two institutions have two different owners.

On the other hand the reasoning that usurious borrowing by government companies from the banks is transferring money from one pocket to another cannot be accepted because these two institutions (banks and government companies) have two different legal identities, while the reasoning about going from one pocket to another requires one legal or real entity.

Therefore, considering it authorized for government companies to take usurious loans from the banks and considering it authorized to sell loan papers from the Central Bank to the banks on the aforementioned reasoning also resembles usury, because in this case the Central Bank also has a government essence, and the other banks have funds that belong to the people.

10. One of the main foundations of current banking is accepting the issue of absolute bank trusteeship. On this basis, the bank is the depositor's trustee, who agrees to invest his funds in areas that will bring him a profit. On the other hand, the trustee is given the right to promise a profit on the account.

The bank's role as absolute trustee raises issues that could lead to something resembling usury. The first is that if the trustee can offer a guaranteed profit, then why were the guaranteed profits the nation's banks gave the people up until the year 1363 declared contrary to religious law, and why did they replace them with new regulations?

Second: Has changing the bank's legal role from that of lender to that of trustee been able to change the essential

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nature of mobilizing and allocating resources, or have a series of new terms in effect replaced the old terms with the same usurious essence, as in the examples, "on account" and "deposit profit rate" replacing "interest" or "means" instead of "loans," since there was no need to change the organizational structure? The banks continue their operations with the same organizations and structure, while changing the bank's legal relationship from that of lender to that of trustee also needs other essential changes which have not been made. Something resembling usury has thus been created in banking operations.

One of the main characteristics of traditional banking is that in granting loans and credit they consider the applicant's financial situation as a main criterion. If the applicant is a person of means, it is easily possible to grant the loan and the credit. In this case the bank really helps the capitalist to become more prosperous. However, if the applicant does not have the necessary means, he cannot obtain the loan and the credit in significant sums. In reality there is a direct relationship between the individual's level of capital and wealth and the use of banking resources in traditional banking.

In banking without usury, there must necessarily be a mechanism designed that disrupts this relationship and all of society, with or without means, can make use of banking means. However, due to the fact that only the allocation procedures have changed and the criteria for allocation have not changed that much, the current banking system still makes the applicant's financial situation the main criterion for granting means, while not that much attention is paid to newly established individuals and those who have the ability to think and create and have the intention of starting a new activity. An example of this is the formation of a limited partnership, where young people who are able to work, who usually lack the necessary authorizations, documents and papers, cannot make use of it. This is another theoretical problem with the current banking system whose solution needs a basic change in the criteria for allocating resources.

[10 Sep p 15]

[FBIS Translated Text]

Economics Division. So far 11 theoretical problems with the nation's banking system have been studied in the series of articles titled "Critique and Study of Current Banking Problems in Iran." Presented below for your consideration is another of the theoretical problems with this system.

One of the major differences between the Islamic banking system and traditional (usurious) banking is that in traditional banking the primary focus is on profitable activities, yet from the Islamic point of view the bank is a public interest organization that operates to provide services to the public. From this standpoint, profitability is not the focus of activity for an Islamic bank. Yet in current banking profitability is the top goal of banks. Of course, what is rejected is the focus on profit, which eclipses many things, but there is nothing wrong with a bank making profit in some of its activities. One of the theoretical problems with current banking is this very fact that putting the focus on profit is not consistent with Islamic banking, while current banking has made profitability its focus. It does not carry out any project unless it is confident that it will be highly profitable, and no economic activity is permitted to enter the system unless its profitability is definitely assured.

[11 Sep pp 15, 16]

[FBIS Translated Text]

Economics Division. In previous issues 12 theoretical problems in the nation's current banking system were discussed in the series of articles titled "Critique and Study of Current Banking Problems in Iran."

Below, as this article continues, the practical problems with Iran's existing banking system will be critiqued and studied:

B) [as published] Practical Problems With the Current Banking System

In addition to the theoretical problems with the current banking system in Iran, there is a series of practical problems which must also be analyzed.

1. Reduction in Interest-Free Bank Loans

Interest-free loans are one of the items included in the Banking Without Usury Law, and on which much emphasis is also placed in Islam. Many Islamic thinkers officially recognize banking only with interest-free loans. Despite the emphasis and the measures provided in the Banking Without Usury Law, unfortunately in practice the percentage of interest-free loans granted by the banks has been on the decline. Table 1 shows the decline in new interest-free loans by banks to the nongovernment sector in the years 1365 through 1370 [21 March 1986-20 March 1992].

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Table 1: Interest-Free Loans Granted by Banks (1365-1370)
Unit: Percentage

Year	1365	1366	1367	1368	1369	1370
Interest-Free Loans Granted	11.5	10.4	9.6	7.4	5.7	4.1

Source: Central Bank of the Islamic Republic of Iran, Economic Report and Balance Sheets for Years 1365-1370

As is evident, the percentage of interest-free loans granted to the nongovernment sector by the banks in the years 1365-1370 has been on the decline. Therefore, the decline in interest-free loans granted by the banks is one of the practical problems of current banking, and it is necessary to make the necessary efforts to solve the problems and obstacles to this.

2. High Cost of Obtaining Banking Means

In the usurious banking system, the cost of obtaining banking means is small because of the simplicity and the short period of time required to obtain loans. In the new banking, however, the cost of evaluating and doing expert work on a project, the cost of calculating the expected profits, the costs of insurance and registration and finally the cost of supervising the phases of the work's progress, obtaining official documents and other similar matters make the cost of obtaining banking means heavy. Some of these expenses exist only because of the bank's role as an intermediary in obtaining and paying out the funds. In many instances the costs of granting banking means may be described more precisely as follows:

- The requirement that the applicant insure the goods with an insurer acceptable to the bank at specified amounts and terms against hazards designated by the bank, and renew insurance policies until the end of the contract.
- Taking a promissory note in addition to other security up to a ceiling of 120 percent of the amount of the banking means.
- Payment of the cost of shipping, the cost of banking services, and other indirect expenses.
- Payment of the necessary expenses to obtain the necessary documents and authorizations.
- Costs of obtaining official documents
- Other ancillary expenses for the procurement of the documentation needed by the bank

[12 Sep p 15]

[FBIS Translated Text]

Economics Division. Yesterday, in studying the practical problems in the nation's banking system, we studied and analyzed two problems, the reduction in the share of interest-free loans given by the banks and the increase in the cost of obtaining the banking means.

Below, as the series of articles entitled: "Critique and Study of Current Banking Problems in Iran," two other practical problems in this system will be studied.

3. Reduced Share of Debt Purchases

The purchase of debt is one of the important types of contracts in Islamic Financial Law, and its use can cover a large amount of the financial resources needed for commercial activities and the debts of individuals in economic activities, in such a way that some people even believe that the use of the rate of purchase of debts can be an important tool for monetary policy in banking without usury, in such a way that it could be used like a rate of reduction and in accordance with the criteria of religious law. Unfortunately, despite the importance of buying debt in contracts, in the years 1363 through 1370 [21 March 1984-20 March 1992] banking without usury there was a decline in the purchase of outstanding debt using means granted by banks. Table 2 shows this decline.

Table 2: Outstanding Banking Means Used for Debt Purchase (1363-1370)
Unit: Percentage

Year	1363	1364	1365	1366	1367	1368	1369	1370
Debt Purchase	11.4	9.9	6.3	3.0	1.0	0.6	0.3	0.1

Source: Central Bank of the Islamic Republic of Iran, Economic Report and Annual Balance Sheets, 1363-1370

4. Image Construction To Obtain Banking Means

In the limited partnership contract, the applicant for means submits the invoice to the bank and requests the sum he needs. This invoice apparently must show the purchase of goods and the fact of becoming indebted, yet in most cases the purchase receipt is forged does not show real indebtedness. If the indebtedness is not real, then the signing of the limited partnership will not be free of problems, because it is the construction of an image and not a real limited partnership.

On the other hand, the issuance of issuance of invoices has already become a source of income for many occupations and every day they get a great deal of money from nowhere by issuing such invoices.

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Unfortunately, despite the passage of about 10 years since the implementation of the new banking operations, this problem has not yet been solved.

[13 Sep p 19]

[FBIS Translated Text]

Economics Division. In previous installments four practical problems in the nation's banking system, the reduction in the share of interest-free loans given by the banks, the high costs of obtaining banking means, the reduced share of debt purchases and the image construction for the sake of obtaining banking means were discussed and studied. Below we will consider the remaining practical problems in the nation's banking system.

5. Increasing Free Resources in the Commercial Banks

One indicator of efficiency in the banking system is that free (unused) resources in the banks are at the lowest level. In this regard, in the traditional banks the free resources at banks show very small figures. Unfortunately, in the one decade of implementation of the new banking in Iran, the free resources in the banks are significantly large figures.

Table 3: Free Resources in Commercial Banks
Unit: Billions of Rials

Year	1363	1364	1365	1366	1367	1368	1369	1370
Commercial Bank Free Resources	3198.1	3611.3	4584.1	5829.1	7563 ? [illegible]	9525.2	12061.1	14462.9

Source: Islamic Republic of Iran Central Bank, Balance Sheets and Economic Reports (1363 - 1370)

As will be noted, the free resources increased from more than 3 trillion rials [R] in the year 1363 to more than R14,000 billion in the year 1370. In other words, it multiplied more than fourfold. It is significant that after the year 1367 [21 March 1988-20 March 1989], when the expected profit rates were increased by the Central Bank, the rate of increase of free resources also increased. This is also a natural reaction, for with the increase in the expected profit rate on banking means, there was less receptiveness to banking means. In any case, the increase in the free resources in banks is one of the problems produced by the current banking system, and this problem is becoming more disturbing every day.

6. Essence of Banking Differs from Traditional Banking

In the new banking the bank has entered into economic activities as a specialist. From this day forward it is necessary to have the necessary specializations and the necessary specialists, yet the banks are constantly suffering from the shortage of trained and specialist personnel. Of course the granting of banking means in specialist instances has never stopped, and this bespeaks the fact that due to the lack of the necessary familiarity and adequate specialization on the part of banking insiders, especially those working in banking means, operations in the new banking have not been implemented as intended by the lawmakers, and therefore it is expected that the designated criteria will not be met. Already, 10 years since the new banking system was implemented, with a short study one can see how little knowledge those working with banking means have about banking without usury.

One of the problems with the new banking system is that those in charge of banking means view all Islamic contracts they way they view the traditional banking system, and this has caused current banking practices gradually to return to former procedures. The problem of inadequate training and the lack of the needed specialists and specializations in the banking system is an important obstacle to reaching the goals in the new banking system.

On the other hand, the commercial banks are working with various kinds of contracts and this creates the need for numerous specializations and various specialists. In view of the lack of the necessary specializations and specialists in the commercial banks, how can these banks be protected from the danger of becoming usurious? Have problems like this existed from the beginning until now?

7. Unsound Competition and Lack of Coordination in Commercial Banks

While sound competition is necessary in economic activities, unsound competition as a violation of regulations for competition with competitors is itself a destructive thing. The competition that now exists among the banks is unsound in a number of instances. For example, if an applicant for means is determined not to have the necessary qualifications to obtain means in a commercial bank, if he knows the insiders working in another commercial bank, he can obtain the means. This practice, which is widespread, bespeaks unsound competition among the banks.

[14 Sep p 16]

[FBIS Translated Text]

Economics Division. So far seven practical problems in the nation's banking system have been analyzed in the series of articles, "Critique and Study of Current Banking Problems in Iran."

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Below the remaining practical problems in this system are studied.

8. Lack of Sufficient Supervision of Granting Means

One of the differences between the new banking and traditional banking is that the new system does not answer affirmatively to every kind of request for means, but after studying the request, if the economic activity is economical and profitable, they give it an affirmative response. It is thus necessary to study the matter and cases where the bank is a lawful partner in the project, it is necessary for it to supervise continuously through the final phase. In practice, however, bank supervision of the cycle from the procurement and payment for banking means through the phase where the project comes to fruition is quite weak. The following instances may be cited as manifestations of this weakness:

- Shortage of specialist and experienced experts
- Inconsistency of banking operations and bank supervision with the bank's role as financial intermediary
- The existence of a relationship in the granting of means that naturally leads to the lack of supervision
- Naivete on the part of bank branch chiefs in the matter of supervising the way funds are used
- The cost of supervision to the bank

A lack of Central Bank supervision over the activities of banks is also evident. The following instances may be cited as indications of weak Central Bank supervision of banks:

- The costliness of supervision because of the need for specialist manpower in various production and commercial fields
- The need for special organization

Therefore, weak supervision is one of the problems in current banking that must be solved.

9. Increased Share of Limited Number of Contracts

Although at the outset 14 contracts were approved in the Banking Law and on principle the banks should use all 14 contracts, only three contracts make the greater part of banking means.

Table 4: Outstanding Means Granted for Installment Sales, Limited Partnerships and Civil Bank Partnerships to the Nongovernment Sector (1363-1370)

Unit: Percentage

Year	1363	1364	1365	1366	1367	1368	1369	1370
Civil Partnership, Limited Partnership, Installment Sales	66.1	61.0	64.3	68.6	69.0	69.8	73.3	74.0

Source: Islamic Republic of Iran Central Bank, Economic Report and Balance Sheets (1363-1370)

As is evident from Table 4, more than 60 percent of the means granted in recent years were allocated to the three types of contracts, installment sales, limited partnerships and civil partnerships. The reason for that is the high profitability of these contracts to the banks, the short terms of some of these contracts, and the possibility of extending them by the applicants, and naturally the bank benefits from this.

On the other hand, the method of calculating the bank's profit share and dividing it into installment payments is also very similar to the procedures used by traditional banks. On an installment sale, for example, after buying the merchandise the banks take the bank's profit rate into account and use the compound interest method of accounting to determine the applicant's payments from the very beginning, and then they divide it into installment payments for the individual.

The widespread and daily increasing use of this kind of contract, in view of the use of accounting methods resembling the ones used before and the traditional banking procedures, create something resembling usury in the system, and this drives the banks toward activities that make high profits in the shortest possible time. Naturally these activities have a commercial essence. This takes banking resources away from investment and production activities and creates inflationary conditions in society. Therefore, the unbridled growth in the use of a limited number of contracts are among the current practical problems in banks.

One of the current practical problems of the banks is that in practice the banks have become involved with a series of apparently profitable projects, which regularly drain sums of money out of the banking system and show no return. Due to the fact that the bank does not have adequate specialist ability, its sole role is that of payer, and in practice, the assessments that take place at different phases continually demand more funds from the banks, in such a way that in the civil partnership contract sometimes the share the bank pays increases as many as three times, and ultimately the cost of the project and the bank's share reach the extent that they are no longer profitable and show a loss even for the bank.

If an extensive study were done on the cases where the banks entered into civil partnership or direct investments, the conclusion would be reached that in most cases the banks either lost money or the project became uneconomical. There are numerous examples, which will not be mentioned.

On the other hand, the banks have become involved in activities that are effectively problems because of the

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lack of specialist ability and because they are inconsistent with the essential nature of the bank.

Therefore, bank partnerships and investments and related matters are among the current practical problems in banks.

It is worth mentioning that the problems pertaining to bank partnerships cause heavy losses and cannot be discussed in the space available here.

[17 Sep p 15, 5]

[FBIS Translated Text]

Economics Division. The theoretical problems in current banking and its nine practical problems were critiqued and studied in the preceding series of articles.

In this installment, possible solutions will be discussed for making change in the banking system.

C)Some Possible Solutions for Making Change in Current Banking Operations

Now that we have become aware of some of the theoretical and practical problems in current banking, we must also discuss some possible solutions. Although changing existing banking operations will require profound study and group effort, in order for this critique and study to have specific recommendations, we will briefly discuss here some possible solutions to make changes in banking operations.

1. Before designing an Islamic banking system and desirable banking operations without usury, it is necessary that the nation's financial system be designed according to Islamic criteria. After the design of an Islamic financial system, then the place of the banking and nonbanking sectors will be specified. In that case, one can be confident that the performance of the entire financial sector will be Islamic and nonusurious.

However, if we only change the banking system and if we ignore the nonbanking sector of the financial system, then because of the lack of a comprehensive perspective, incompatible and inappropriate elements in the nonbanking sector could have a nonbeneficial effect on the banking sector, or, because of the failure to make the best divisions among the tools and resources for equipping and allocating in the banking and non-banking sectors, elements from the nonbanking or real sector will be brought into the banking sector and this will gradually draw the banking sector into undesirable and even usurious activity.

Thus, in planning how to change banking operations, it is necessary first that we design the financial sector according to the point of view of the Islamic economy, and then design the banking sector. It appears that one of the reasons for the appearance of theoretical and practical problems in the new banking in Iran is planning the banking sector without prior planning of the nation's financial system. For this reason, when redesigning the banking sector in the desired way, it will be necessary to take this prerequisite into consideration.

2. The primary focus in making change must be on separating money from capital. Thus, when accepting banking services, demand accounts and interest-free loans, the monetary sector must be limited to those instances. Banking services must live in the contemporary world. Demand accounts, in addition to the services that they provide, with their money creation function, can also added to the volume of money available to the banks. Interest-free loans must also be used in the monetary sector to meet the needs of applicants.

The banks are responsible for the monetary sector in the financial system. Apart from the examples mentioned, this sector uses contracts such as checks, buying debt, bonds, mortgages and deposits. Nothing extra is taken in any of the instances mentioned, and only a reasonable fee is taken. The essence of such activities demands that they be carried out by a government bank or national bank that the government supervises.

Therefore, all current banking operations with the exception of short-term and long-term investments will continue to operate in the monetary sector with the new regulations pertaining to the aforementioned contracts. Monetary policy will also be implemented through this commercial bank.

The short-term and long-term capital deposits sector must be completely under the mantle of a number of private banks. These banks carry out profitable development projects using stock certificates issued by investment corporations. The role of making policy, supervision and implementation of monetary policy where necessary is carried out by the specialist bank, and the investment corporations accept deposits only in the form of stock purchases. Thus money gives no return. Rather, it is investment that will bring a return. Of course Paragraph 2 was presented with maximum abbreviation. It is beyond the scope of this piece to discuss the matter in detail.

3. The nation's current banking formation and organization takes the form of several commercial banks and several specialist banks, while in the desired system it is possible that a (nationalized) commercial bank would be adequate to perform the tasks of the monetary sector, and that the banking sector or several specialist banks could handle investment affairs. It is necessary to explain that if the commercial banks are consolidated and if a single commercial bank is created, there will be great savings in banking costs.

If action were taken in the current banking system based on the plan for change that was very briefly written, almost all the theoretical and practical problems mentioned would be solved, because:

First: Money would be separated from capital and profit making would be taken out of the banking domain.

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Second: There would be no guaranteed profit, profit on accounts, minimum expected profit or other such things, and in the investment sector, in addition to the profit of corporations, each investor could benefit from the returns from capital gains derived from the difference between the market price of shares and the nominal share price, by buying stock certificates or partnership documents, and consequently, in addition to making a profit, could protect himself from inflation and the decline in the value of money.

Second [as published]: Investment in the private sector is effectively limited to the partnership contract. Something that was briefly discussed was a possible project to make changes in current banking operations, solve the problems of the banks and get away from practices that resemble usury. There is no doubt that if we want to present solutions based on Islamic criteria, numerous plans can assuredly be presented, all of them in accordance with Islamic law, while at the same time not being inconsistent with each other.

On the other hand, change in Iran's banking system is considered to be the first step towards making Iran's economy Islamic. It is thus necessary, after 10 years of implementation, to review the new banking system and to make reforms and sometimes changes based on studies, research and accumulated experience. It is hoped that this article will receive the attention of those working in banking affairs and that it will stimulate the presentation of plans to change the nation's current banking system.

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